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Final Report

Evaluation of the Bangladesh Industrial Promotion Project

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Contents

Contents (continued)

Contents (continued)

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Contents (continued)

Illustrations

TABLES

EXHIBITS

Glossary

ABEF	American Bangladesh Economic Forum
ADB	Asian Development Bank
ANZ	Australia New Zealand [Bank]
ATDP	Agro-based Technology Development Project
A.I.D.	U.S. Agency for International Development
ARIES	Assistance to Resource Institutions for Enterprise Support
BASC	Business Advisory Services Center
BB	Bangladesh Bank
BDG	Bangladesh government
BIBM	Bangladesh Institute of Bank Mangagement
BMDC	Bangladesh Management Development Center
BMET	Bureau of Manpower, Employment and Training
BOI	Board of Investment
BRAC	Bangladesh Rural Assistance Committee
BSB	Bangladesh Shilpa [Industrial] Bank
BSCIC	Bangladesh Small and Cottage Industries Corporation
BSRS	Bangladesn Shilpa Rin Sangstha (Bank)
BUSBC	Bangladesh United States Business Council
CA	Cooperative Agreement
CARE	Cooperative for American Relief Everywhere
CCI	chamber of commerce and industry
CESO	Canadian Executive Services Organization
CIDA	Canadian International Development Agency
crore	10 million taka
CTA	chief technical adviser
DANIDA	Danish International Development Agency
DBL	Development Bank Limited
DCCI	Dhaka Chamber of Commerce and Industry
DEDO	Drawback of Export Duty Office
DFI	development finance institution
DSE	Dhaka Stock Exchange
ED	executive director
EDP	enterprise development project
EOPS	end-of-project status
ERP	effective rate of protection
FIAS	Finance and Investment Advisory Service
FF	Ford Foundation
FMO	Dutch Technical Assistance Agency
FSRP	Financial Sector Reform Project

Glossary (continued)

FY	fiscal year
GDP	gross domestic product
GEMINI	Growth and Equity through Microenterprise Investments and Institutions
GNP	gross national product
GTZ	German Technical Assistance Agency
HCC	host country contribution
ICCDRB	International Center for Diarrhea Disease Research (Bangladesh)
IDA	International Development Association (World Bank)
IDIC	Industrial Development Leasing Company
IESC	International Executive Service Corps
IFIC	International Investment Investment Commerce
IFC	International Finance Corporation
ILO	International Labour Organization
IMCC	InterAmerica Management Consulting Corporation
IPDC	Industrial Promotional Development Company of Bangladesh
IPP	Industrial Promotion Project
IRR	internal rate of return
ISAC-2	second industrial structural adjustment credit (World Bank)
IUB	Independent University of Bangladesh
lakh	100,000 taka
LPG	Loan Portfolio Guarantee program
MCCI	Metropolitan (Dhaka) Chamber of Commerce and Industry
MIDAS	Micro Industries Development Assistance Society
MIS	management information system
MOF	Ministry of Finance
MOI	Ministry of Industries
MORR	Ministry of Relief and Rehabilitation
MOSW	Ministry of Social Welfare
MOWA	Ministry of Women's Affairs
MSEDP	Micro and Small Enterprise Development Program
NBR	National Board of Revenue
NCB	nationalized commercial bank
NGO	nongovernmental organization
NLC	National Leasing Company
NORAD	Norwegian Aid Agency
ODA	Overseas Development Association
OEE	Office of Economic Enterprise (A.I.D.)
PACD	project activity completion date

Glossary (continued)

PIAG	Policy Implementation and Analysis Group
PRC	Project Review Committee
PROSHIKA	A local NGO
PSW	Productivity Services Wing (Bangladesh Employers Association)
PVO	private voluntary organization
SC	Standard Charter [Bank]
SCITI	Small and Cottage Industries Training Institute
SDC	Swiss Development Cooperation
SEDP	Small Enterprise Development Program (DANIDA)
SICIS	Small Industry Credit Insurance Scheme
SME	small or medium enterprise
SOE	state-owned enterprise
TA	technical assistance
TAF	The Asia Foundation
TAPP	technical assistance project paper
TDD	terminal disbursement date
Tk	taka ($1.00 = Tk 38.9)
TOR	terms of reference
UNDP	United Nations Development Programme
USAID	country Mission of A.I.D.
VAT	value-added tax
VE	volunteer executive (IESC)
WB	World Bank (also known as the International Bank for Reconstruction and Development, or IBRD)
WEDP	Women's Enterprise Development Project
WID	Women in Development

Preface

This evaluation of the Industrial Promotion Project (388-0076) was prepared for USAID/Bangladesh by Nathan Associates Inc., under its Macroeconomics Indefinite Quantity Contract (IQC) number AEP-5451-I-00-2058-00 with the U.S. Agency for International Development. The assignment was Delivery Order 16.

Making up the Nathan Associates evaluation team were Dr. Thomas A. Timberg, Mr John W. Varley, and Mr. Mirza Najmul Huda, with Mr. Varley serving as team leader. Most of the field work in Bangladesh was carried out between October 2 and November 10, 1994. Follow-on field work in the United States was done in January 1995. This report reflects all comments and observations received to date from USAID and Industrial Promotion Project contractors and grantees.

The evaluation team would like to thank Mr. Richard Brown, Mission Director, and his staff for their support. The OEE staff—Mr. Stuart Callison, Mr. Najmul Hossain, Mr. Azizur Rahman, Mr. Naushad Faiz, and Mr. Ross Bigelow, in particular—were very helpful. Special thanks are also due the many officials of the Government of Bangladesh who cooperated generously with the evaluators' requests for information and interviews, as did the staff of the various IPP components and numerous private businessmen and individuals consulted by the team, particularly Mr. Forrest Cookson of Nathan Associates.

A final acknowledgement is owed to those in A.I.D. who have made Internet connections between the United States and Bangladesh a reliable way to communicate. The ability to exchange documents, as well as messages, made the task of editing and reviewing draft sections considerably easier to manage. In that respect it was particularly helpful to be working for "rbigelow@usaid.gov," who supported and encouraged using the Internet.

Executive Summary

The Industrial Promotion Project (IPP) is a major project designed by USAID/Bangladesh to encourage development of private sector industry, particularly small industry. The Project Paper was approved August 8, 1989, and the completion date was set for September 30, 1996. The project budget, revised July 1994, is $9.56 million—a combination of $5.56 million from USAID/Bangladesh and a $4.0 million commitment in the form of credit guarantees from A.I.D./Washington's Office of Investment, Medium and Small Enterprise Development Program (MSEDP).

The project goal is "to increase employment, productivity, and competitiveness of private sector enterprises in Bangladesh." The subgoal is "to increase local and foreign investment in the Bangladesh private sector."

The Bangladesh economy has embarked on the difficult transition from state ownership and control to a private sector, market-driven system. However, the private sector, repressed for decades, remains underdeveloped. To date the Bangladesh government's (BDG) approach to policy reform and privatization has been gradual, which tends to prolong the transition period and limit what can be accomplished during the early stages of liberalization.

IPP focuses on three types of obstacles to development of new private sector business: repressive policies, limited access to capital by small and medium-sized enterprises (SME), and a shortage of good technical assistance. IPP's design incorporated a threefold purpose: (1) to reduce policy, legal, and regulatory constraints impeding private sector investment and business expansion, (2) to increase access to private bank credit by SMEs, and (3) to increase business use of improved technology and business practices.

IPP has funded five different component programs:

- **Policy Implementation and Analysis Group (PIAG)**, a bilateral component with the Bangladesh Ministry of Industries (MOI) aimed at strengthening the Bangladesh government's ability to analyze and monitor the impact of policy reform on industrial development.
- **Small Industry Credit Insurance Scheme (SICIS)**, a USAID/Washington-funded portfolio insurance program offered to private sector commercial banks to encourage them to lend to SMEs.
- **International Executive Service Corps (IESC)**, a technical assistance program for private sector businesses using volunteer executives recruited by IESC, a U.S.-based private voluntary organization (PVO).
- **Business Advisory Services Center (BASC)**, a new nongovernmental organization (NGO) created and funded by a Cooperative Agreement grant under the IPP to help SMEs locate needed technology and management services.
- **Bangladesh United States Business Council (BUSBC)**, a U.S. PVO incorporated to promote U.S. investment in Bangladesh. IPP was funding a continuation of earlier work.

Implementation of IPP suffered from unforeseeable interruptions and unusually long bureaucratic delays by the Bangladesh government. Although the project agreement was signed with the government in August 1989, the IESC component was not effectively operational until 1992, and the PIAG component began producing most of its reports in 1993. To a degree, the delays were fortuitous because they allowed IPP's implementation to coincide with a major change in the economic and investment climate created by the government's New Industrial Policy Act of 1991.

IPP has occurred during, and has contributed to, a period of major economic improvements in Bangladesh. Preliminary estimates indicate that gross domestic product (GDP) grew 4.5 percent in 1994, while inflation fell from 8.9 percent to 2 percent. Industrial output grew almost 10.9 percent in 1993–1994, up from 5.9 percent in 1990–1991. Although total investment grew in 1994, the level remained at 14 percent of GDP, well below the 18 percent level required to accelerate GDP growth. However, planned investments registered with the Bangladesh Board of Investment (BOI) surged from $130 million in 1992–1993 to $1.26 billion for July 1993–June 1994.

Most of IPP's contribution to private sector industrial development can be attributed to two components, IESC and PIAG. Although no component has achieved individual self-sufficiency, the Bangladesh economy will enjoy a sustained level of benefits from private sector investments and productivity improvements that would not have been made without IESC technical assistance and enactment of policy reforms advocated by PIAG. IESC has provided more than 1,960 person days of technical assistance to 34 private sector enterprises in Bangladesh. PIAG has been an active advocate of government reforms that are continuing to transform the economy, stimulate new investment, and create opportunities for private sector firms. An examination of selected IESC case studies identified more than $3 million in new investments, 1600 jobs, and $5.3 million of additional annual income created by businesses assisted by one or more IPP activities. Allowing for the multiplier effects of respending, the additional $5.3 million income generated by IPP-assisted private sector firms will create $13 million of additional spending and income economy-wide in Bangladesh—a strongly positive impact for a project that has used less than $4 million of Mission funds since 1989.

Other IPP components were less successful than IESC and PIAG. The BASC component has made some progress in increasing SME access to technical and management assistance resources, but has not yet made a significant impact on target indicators such as investment, credit access, or productivity of SMEs. The BUSBC component ended in 1991. It produced some materials encouraging U.S. investment in Bangladesh, but did not make a material difference in actual investment.

The SICIS component has been unable to attract participation from private sector banks in Bangladesh. This is due mainly to the underdeveloped state of the financial sector in Bangladesh, a major obstacle to industrial development in its own right, which USAID is addressing through a separate project focused on financial sector reform. Nevertheless, the SICIS component has had an indirect and potentially significant impact on improving credit access for SMEs. The Mission's promotion of the SICIS program helped to focus the attention of the Ministry of Finance (MOF) and the Bangladesh Bank (BB) on the SME credit problem and on how loan guarantee programs could help. This prompted MOF to undertake its own guarantee-related initiatives to assist SMEs, including a loan guarantee program for the nationalized commercial banks (NCB) and plans to allow government-guaranteed bond issues by selected NGOs such as Grameen Bank. This is a major achievement with potentially significant importance for SMEs; IPP deserves at least partial credit. The Bangladesh government's initial efforts to create its own loan guarantee program have not been successful, which indicates that the government would benefit from technical assistance in this area.

The IESC program, now scheduled to end in December 1995, is worth continuing and expanding. It appears that the PIAG unit in MOI, whose USAID funding is scheduled to end in September 1995, will not be continued by the government. USAID should not offer to continue funding at this time. Similar policy support activities can be restarted when strong government interest is demonstrated or an appropriate private sector host is identified. The SICIS component can be continued at little cost, but will not achieve the impact desired in the area of SME financing. Alternative designs have to be developed, and technical assistance to the government in implementing its guarantee schemes is a promising place to start. The BASC component is not having the intended impact on SMEs and will need careful monitoring. Results to date indicate that BASC will have trouble achieving its target outputs and even more trouble achieving financial sustainability. The BUSBC component was completed in 1991, and should not be reactivated.

The remainder of this summary contains the major findings, conclusions, and recommendations emerging from this evaluation. Additional recommendations specific to each of the five IPP components appear in Chapters 2 through 6.

FINDINGS

Since 1989, IPP has funded five separate component programs—PIAG, SICIS, IESC, BASC, and BUSBC—all designed to promote private sector industrial development in general and development of small and medium-sized industrial enterprises in particular.

Implementation of all components except BUSBC suffered from unforeseeable interruptions and unusually long bureaucratic delays. Although the Project Agreement was signed in August 1989, not more than four assignments were completed under the IESC component until 1992. PIAG did not have a resident chief technical adviser until 1993. Causes for the delays included domestic political turmoil and the election and installation of a new government, as well as the 1991 cyclone and the Gulf War. However, the IPP also encountered more bureaucratic problems with the Bangladesh government than did other USAID projects implemented at about the same time. In one respect, the delays were fortuitous. In 1991, the newly elected Bangladesh government announced its New Industrial Policy, launching a wave of reforms to encourage private sector investment and development.

By 1993 the PIAG and IESC components were fully operational. BASC, which operated as a program within the Micro Industries Development Assistance Society (MIDAS) from 1991 to 1993, established a separate legal identity in October 1993 and signed a new Cooperative Agreement in its own name in September 1994. The BUSBC component was completed in 1991. SICIS was explained and offered to private sector banks in Bangladesh in 1990 and again in 1993 and 1994, but no banks have yet applied for the program.

Managers of the PIAG, IESC, and BASC components communicate with each other and have supported each other's activities on occasion. IESC provided the technical assistance of a volunteer executive to BASC. BASC helped organize workshops for PIAG and SICIS. For the most part, however, the components plan and implement their activities separately.

Project Overview

Despite delays. IPP has helped to promote the development of private sector industry and to increase local and foreign investment in the Bangladesh private sector.

Microeconomic Impact

At the microeconomic level, a sample of case studies carried out by the evaluation team indicates that technical assistance from IESC volunteers, in combination with government policy reforms advocated by PIAG, have contributed to new investment and increased employment that would not have occurred otherwise. The evaluators learned of $3 million in new investments, more than 1,600 jobs,[1] and $5.3 million in additional wages and profits that private businesses attribute to IESC assistance or tariff reforms, or both. Taking into account the multiplier effects of respending, the ultimate impact approaches $13 million of additional value added annually, enough income to support 25,000 jobs in the Bangladesh economy.

Macroeconomic Impact

In general, the dynamics of private sector investment are too complex, and the scale of IPP is too small, to allow measurement of IPP's impact using macroeconomic formulas. As noted earlier, however, macroeconomic indicators have improved, especially during 1994, when industrial output grew 10.9 percent, and the value of planned investments registered with the BOI rose tenfold to $1.26 billion.

From 1992 to 1994 the market capitalization of securities listed on the Dhaka Stock Exchange increased from $330 million to $880 million, aided in part by investment from offshore mutual funds interested in Bangladesh as an emerging market. Estimates of the amount of foreign funds involved range from $50 to $200 million dollars.

Outlook for Continued Reform

Despite progress to date, there have been indications that the pace of reform is slowing and that the government's commitment may be waning. In summer 1994 the Asian Development Bank cancelled a $62.5 million credit facility tied to privatization of state-owned enterprises (SOE) in Bangladesh because of lack of progress and interest on the part of the government. In December 1994 the World Bank cancelled the remaining portion ($50 million) of its Industrial Sector Adjustment Credit project (ISAC-2) because of disappointing progress to date and disagreements with Bangladesh government over an acceptable pace for future reforms.

Policy Implementation and Analysis Group

The PIAG unit is operating in affiliation with MOI. The Mission-funded contractor for PIAG, the InterAmerica Management Consulting Corporation (IMCC), operates an office nearby but not in the same building as the MOI-designated project director and staff. The MOI project director and staff report that they have a full load of ministerial duties to attend to in addition to working with PIAG.

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[1]Of these, approximately 1,100 jobs will be filled by women working in the garment and footwear industry.

The first IMCC/PIAG staff, two respected Bangladeshi professionals and reform advocates, began work in August 1992. The resident chief technical adviser (CTA) arrived in 1993. The first PIAG policy papers were circulated for comments in early spring 1993. Since then PIAG has produced eight major policy reports, several shorter papers and memoranda on policy issues, and the first issue of a quarterly review of policy reform issues. PIAG has also organized three major policy issue workshops and a number of Key Person Forums.

Leaders from government, the private sector, and the international donor community know about PIAG, respect its professional staff, and have a high regard for its work. In public forums, media articles, and printed policy papers PIAG has advocated implementation of policy reforms that have contributed to a dramatic increase in local and foreign investment planned for the Bangladesh private sector. In 1994, $818 million of new projects were registered with the BOI, more than triple the amount registered in the preceding 3 years.

MOI has been helpful as a platform. Senior officials have embraced PIAG reform efforts and helped to champion them in public forums and in face-to-face meetings with other branches of government responsible for implementing reforms. PIAG documents have been circulated in draft with a cover page listing PIAG as a unit within MOI. No PIAG document has yet been circulated under a signed MOI cover letter endorsing the recommendations.

MOI staff assigned to PIAG have not participated in or contributed significantly to the analyses and reports PIAG has produced. MOI and BDG have not made the administrative decisions necessary to make PIAG a permanent unit within MOI.

Responsibility for SOEs and industrial policy is spread throughout the government. SOEs are managed by three ministries (Industries, Jute, and Textiles). In addition, the Board of Investment, the Privatization Board, the Ministry of Planning, the Bangladesh Tariff Commission, the Customs Service, the Bangladesh Bank, and the Board of Inland Revenue all have power to affect industrial development.

In addition to PIAG, there are several high-profile private sector groups, such as the Federated Chamber of Commerce and Industry, that are interested in promoting investment and reforming policy.

PIAG advocates and monitors progress on reforms using a policy reform matrix that is very similar to the agenda included in the ISAC-2 agreement between the World Bank and the Bangladesh government. World Bank staff have professed interest in and a high regard for PIAG's work, but have not cooperated in sharing data or otherwise assisting in PIAG's research efforts. When the World Bank cancelled the ISAC-2 agreement with the Bangladesh government in December 1994, it did so without consulting USAID or PIAG beforehand or notifying them afterwards.

Small Industry Credit Insurance Scheme

No private sector bank has applied to the SICIS program, and those banks strong enough to qualify have not expressed much interest. The SICIS program is not open to the nationalized commercial banks (NCB) of Bangladesh's public sector.

There are 16 private sector commercial banks and 2 financial leasing companies operating in Bangladesh. The banks include 4 branches of international banks and 12 local private sector banks. The financial sector system in Bangladesh is in the midst of a difficult reform and transition process. Only about one-half of the local private sector banks are financially strong enough to qualify for SICIS.

Some promotion of USAID's Loan Portfolio Guarantee program in Bangladesh occurred as early as 1990. In 1993 a seminar explaining the program was well attended by leaders and officers from the banking and business community. An officer from A.I.D./Washington, Private Enterprise Office of Investment, returned to visit potential applicants in 1994. Also in 1994, training workshops in financial management were held for businessmen and bankers who expressed interest in the SICIS program.

One bank that could qualify, the Bangladesh branch of ANZ Grindlays, requested permission to apply for SICIS guarantees from its regional headquarters in the summer of 1994. As of January 1995, permission had not been granted. ANZ Grindlays/Bangladesh had planned to apply for coverage of a portfolio of approximately $1 million, consisting of 6 or 7 loans in the $150,000 range.

Two new financial leasing institutions did apply to the program in 1990. However, they were not accepted because they were too small and lacked the required 3 years of audited financial statements.

The Bangladesh Ministry of Finance instituted a loan guarantee program of its own in December 1993. As of October 1994, this program had not generated more than a dozen guaranteed loans.

International Executive Service Corps

By the end of 1994 the IESC program had fielded 34 volunteer executives (VE) who have provided more than 1960 person days of technical assistance to Bangladesh private sector enterprises. Most enterprises report (1) strong satisfaction with assistance received and (2) positive improvements in productivity as a result of implementing recommendations made by VEs.

Most volunteers have been assigned to enterprises in the medium-scale range by USAID standards. Small enterprises have been helped indirectly through assistance given to NGOs that work with SMEs.

Business Advisory Service Center

BASC has established itself legally, developed a business plan, and hired professional staff. It is operating an office, reference room, and training facility in a converted residence in the Dhanmondi section of Dhaka.

Between 1991 and 1994 BASC (1) provided training to 787 people (including 151 women) from 243 organizations; (2) carried out 11 consulting assignments, including 4 to start-up enterprises; and (3) sponsored 38 training events, including seminars, forums, and a catalog exhibition.

Other findings may be summarized as follows:

- In 1993–1994 BASC earned about Tk 765,000 ($19,000) in fees from consulting work (49 percent) and training (51 percent). This was more than double the income earned in the 2 previous years combined, but still accounted for less than 8 percent of BASC's annual operating costs of Tk 10.6 million ($265,000) in 1993–1994.
- BASC's reference library contains 588 publications, almost all of which are in English; 42 are in Bengali.
- Training at BASC is conducted in both Bengali and English. Participants report high satisfaction with the training courses and plan to attend more sessions. BASC was not able

to report to the evaluators on improvements in productivity by businesses that have received training.

- Some chambers of commerce and industry (CCI), as well as some private sector institutions, offer training similar to that offered by BASC.
- BASC has done very little brokering business, that is, matching a client with a provider of technology or management services. BASC does use non-BASC personnel for training and consulting work by contracting short-term experts and paying them directly.
- BASC professionals are not typically assigned new business or income generation targets.
- While BASC was under MIDAS' stewardship, progress toward establishing BASC as a separate functional entity was very slow.
- BASC is currently the largest IPP component in terms of budget, accounting for $2.39 million of USAID/Bangladesh's $5.56 million budget for IPP.

Bangladesh United States Business Council

Key findings for BUSBC included the following:

- IPP funding for BUSBC, a PVO incorporated in Virginia, began in 1989 and ended in 1991. BUSBC continued to operate for a while longer with $100,000 of BDG funding received in 1990.
- In 1990 BUSBC had between 26 and 33 dues-paying members. Annual income from dues and fees was about $6,000, which covered less than 10 percent of its average annual operating expenses, excluding programs and events.
- BUSBC's executive director is not aware of any U.S. enterprise that went on to invest in Bangladesh after using BUSBC's services, but he named four projects he believed may eventually make a significant investment in Bangladesh.
- BUSBC produced some promotional publications, a short video, and brief investment opportunity studies that were provided to interested inquirers.
- BUSBC organized two short investment missions consisting of Bangladeshi government officials and private sector business representatives traveling to the United States in search of investment and trade opportunities. BUSBC organized no missions for U.S. businesses to visit Bangladesh.
- Since leaving BUSBC, the former executive director has played key roles in (1) advising the Bangladesh Board of Investment on restructuring its operations and (2) advising Occidental Petroleum in its successful efforts to obtain concessions in Bangladesh.

CONCLUSIONS

IPP is a complex project with multiple components. This complexity, along with the project's confused, delay-ridden implementation history, make generalized conclusions difficult.

Project Overview

IPP has focused on its three-part purpose of reducing policy, technological, and credit constraints on private sector industrial investment, and progress has been made by two of the project's five components. PIAG has contributed marginally to reducing policy constraints; IESC has contributed to removing technological constraints faced by individual private enterprises. The

SICIS component has had no direct impact, but the Mission's efforts to launch SICIS did play a key role in stimulating government efforts to reduce credit constraints on SMEs.

Technical assistance from the IESC programs, combined with the government's tariff reforms, have contributed to increasing annual income in Bangladesh by an estimated $13 million, encouraging at least $3 million of new investment and the creation of more than 1,600 jobs. The scale of this impact is the result of the quality of IPP inputs and of good timing. PIAG advocacy and IESC assistance occurred in the wake of significant government reforms that created opportunities for new private sector development.

Even greater impact was expected from IPP, especially under the SICIS component. The evaluation team believes the shortfall in IPP's achievements can be explained mainly by (1) lack of support from the new government, (2) USAID's inability to respond and adjust to the changes in the government's level of interest and support, (3) Bangladesh's underdeveloped financial sector, (4) uncontrollable factors like the Gulf War, (5) the problems of a transitional economy, and (6) the project's ambitious pursuit of a dual agenda: industrial sector reform and assistance to SMEs.

Following the change of government in 1991, the new government, including MOI, was not strongly supportive of IPP. It is difficult to judge if the Mission could have been more effective in managing the IPP's relations with the new government. In retrospect, it appears that the Mission could have showed either more flexibility or more forcefulness in its dealings with the new government. The Mission was unable to identify strong sponsors for IPP within the new government who could have helped expedite implementation. The Mission considered radically redesigning the project, particularly the bilateral PIAG component, but was unable to interest the new government in joining this effort.

Government support might have been stronger had IPP technical assistance been more closely tied to (i.e., a condition of) the ISAC-2 credit, a design arrangement that appears to have helped the implementation of the Financial Sector Reform Project (FSRP).

Sustainability

None of the IPP components can be considered self-sustaining. The government has not decided to incorporate PIAG into MOI has a permanent unit. It is improbable that BASC will achieve self-sustainability while striving to serve mainly SMEs that are unable to pay the full commercial price for technical assistance.

Integration and Focus

For the most part, the components of IPP operate separately, reinforcing each other only occasionally. Given the diverse purposes served, however, the components are integrated as much as can be reasonably expected. In addition to its announced purpose of removing obstacles to development of private industry, the IPP also focused on assisting SMEs. SMEs do suffer from obstacles that affect all industry as well as their own special problems. However, for some IPP components the attempt to attack both sets of problems with the same project resources was not practical. SME limits made SICIS less attractive to banks. IESC, PIAG, and BUSBC were not able to devote much time or resources to SME needs. BASC was particularly confused about what clientele it should serve.

Leverage for Policy Reform

Bangladesh is a transition economy. The entire industrial sector needs restructuring, yet responsibility even for the public sector industries is fragmented, and there is no strong institution within the BDG that can serve as a directorate or leverage point for a restructuring program. IPP's ability to have a macroeconomic impact requires parallel progress in other areas, not addressed by IPP, such as privatization, trade, legal and regulatory systems, infrastructure, labor force development, even civil service reform. Projects such as IPP that strive for macroeconomic impacts should be part of a larger sector adjustment strategy embraced by the government. This was only partially the case for the IPP. IPP shared an agenda with the BDG's New Industrial Policy and the World Bank's ISAC-2, but operated more in parallel than in a coordinated way with these other efforts.

Policy Implementation and Analysis Group

PIAG has made positive contributions to the policy reform debate and the building of consensus in Bangladesh, and should be credited with helping to achieve policy reforms that have encouraged new investment and private sector development. The benefits of these reforms will be more apparent as the surge in planned investments leads to an increase in actual investments in the next few years. Encouraged by the new atmosphere and opportunities, private investors have made plans but will proceed cautiously with actual investments, and may even retreat if the liberalization process begins to stall.

Although senior MOI officials have cooperated with PIAG and used the MOI as a platform for reform advocacy, MOI will not be able to continue the PIAG unit after USAID funding for the unit ends. Regardless of PIAG's fate, there is still a need for policy reform research and advocacy in Bangladesh. Understanding of the process and benefits of private sector led development is not widespread. Many government leaders remain unconvinced that the transition will produce more benefits than political problems. There remains a strong need for public debate and consensus building.

From the perspective of the private sector, there is also a need for an ombudsman service that will monitor implementation of reforms.

Cancellation of the World Bank's ISAC-2 Credit agreement with BDG is one indicator of the continuing need for policy reform assistance in Bangladesh. The loss of ISAC-2 will complicate PIAG's policy reform agenda. Without the leverage and support of adjustment credits from the World Bank, progress toward policy reform will be harder to achieve. In this period of diminished consultation between the World Bank and the Bangladesh government, PIAG may be able to play a mediating role or at least help the government to continue those policy reforms to which it is committed.

Small Industry Credit Insurance Scheme

SICIS will not be widely used in Bangladesh and will not make a significant direct contribution to easing credit constraints on industrial investment.

Even if private sector banks apply for the SICIS program, they are unlikely to use it to offer small business loans in the $1,250 to $5,000 range. The few private financial institutions interested aim to make loans in the $75,000 to $150,000 range.

The SICIS program did not directly improve SME access to commercial credit. However, promotion of the SICIS program did encourage the Ministry of Finance and Bangladesh Bank (BB) to focus on the problem and on how guarantee programs might solve it. This prompted MOF to undertake some of its own guarantee-related initiatives to assist SMEs, including its own loan guarantee program and a plan to allow government-guaranteed bond issues by NGOs such as Grameen Bank. IPP deserves at least partial credit for this achievement, even if the result was indirect and unexpected.

International Executive Service Corps

The IESC program is working well in Bangladesh because of good administration and because government policy reforms are creating new opportunities for private sector firms. Now and in the near future, the Mission can expect IESC technical assistance to make very positive contributions to helping private industry and to accomplishing its strategic objectives in the area of sustainable development and job creation.

Business Advisory Services Center

MIDAS acted so slowly in helping to launch BASC that, aside from training, BASC's substantive work started only in April 1993.

BASC has made only a marginal contribution to the logframe output of "increased business use of improved technology and management practices." The evaluators are unaware of any BASC efforts that have led to increased local or foreign investment in the Bangladesh private sector other than the investment clients make in attending training or purchasing consulting services through or from BASC.

BASC is not currently self-sustainable, and its prospects for becoming self-sustaining are not good. BASC's 1993–1994 costs were about 14 times larger than its income, even though income doubled in that year. BASC will have to continue to double its income each year for the next 4 years to reach viability.

The market for BASC's services as a technology consultant or broker has not been clearly defined. The strong demand predicted by the 1989 sample survey that prompted creation of the BASC component has not materialized.

By accepting consulting and training assignments from fee-paying clients, BASC is competing with private sector enterprises that offer similar consulting and training services.

As it now functions, BASC is not reaching enough SMEs to fulfill its targets under the Cooperative Agreement (CA). BASC must reach more SMEs without allowing its costs to rise appreciably; to do this, it must increase the effectiveness of its existing staff. BASC can use the period of the CA to determine if there is a long-term viable market and scale of operations that would be feasible in the absence of its grant funds. If the answer is negative, BASC has to be willing to cease operations at the end of its CA grant.

Bangladesh United States Business Council

BUSBC was unsustainable. It never operated in a manner that could be sustained financially by private sector membership. Although its operating costs far exceeded it dues income, the benefits it produced for its membership were negligible.

RECOMMENDATIONS

The IESC program merits continuation and expansion. The other components all need significant redesign if USAID and host country resources are to be more effective.

Policy Implementation and Analysis Group

The Mission should temporarily halt its efforts to strengthen the government's capacity for industrial policy analysis and reform while the government, the Mission, and other major donors consider their next steps. The Mission should make clear to the government that it will resume assistance when wholehearted support for reforms and interest in outside assistance are again evident.

In the remaining months PIAG should narrow its focus to advocating a few reforms and concentrate on tracking implementation of major reforms already announced. PIAG should develop estimates of the beneficial impact of reforms on the economy. The IMCC contractor should leave MOI with plans for continuing a policy unit and for strengthening MOI's administrative capability. When the current contract with IMCC ends, the Mission should discontinue funding of the PIAG unit as a policy group within the MOI.

Several private sector organizations are emerging as respected stakeholders and advocates of private sector development. In the remaining months IMCC should advise the Mission on the possibility of transferring some of PIAG's activities to an established private sector organization (e.g., a CCI) that is able and willing to organize itself to serve an SME constituency.

Small Industry Credit Insurance Scheme

The Mission should try to build upon BDG's and Bangladesh Bank's receptivity to the concept of guarantee programs by offering technical assistance in their design and operation. BB's own loan guarantee program (LPG) suffers from not having incorporated some of the better features of the USAID program. A program is needed to help the government design and operate guarantee schemes properly and prudently.

Assistance may also be needed by potential bond issuers such as Grameen Bank and the Bangladesh Rural Assistance Committee (BRAC). These institutions need to learn how to plan, time, and price issues; set up and manage sinking funds; and manage the large microcredit programs that the bonds will finance. A successful flotation and microcredit program will contribute significantly to the Mission's strategic goals and objectives.

International Executive Service Corps

This program should be extended and expanded. The Mission and IESC should accept the reality that for the next several years, the program will be used mostly by medium or even somewhat largescale businesses whose success will serve the Mission's strategic objectives by creating jobs and income.

In order to reach smaller businesses, IESC should experiment with the design of its assignments by, for example,

- Working with its larger clients on a program to develop local SMEs into manufacturers of inputs that the larger clients will purchase;
- Working through NGOs that assist small and woman-owned enterprises, such as Kumudini Welfare Trust, which IESC has already assisted;

- Using CCIs or NGOs such as BASC or MIDAS to organize smaller enterprises in groups or batches that can apply collectively for IESC assistance.

The IESC country director should also improve IESC evaluations and reporting to the Mission to include more information on economic impact, in particular changes in investment, employment, and earnings that are partially the result of VE assistance.

Business Advisory Services Center

The Mission should continue to advise BASC that USAID funding will cease at the end of the current Cooperative Agreement in 1996. BASC has to give first priority to serving SMEs and achieving the targets set forth in its Cooperative Agreement. BASC should not engage in consulting services for clients capable of paying market prices.

BASC must begin providing USAID with regular impact assessments in a format that responds to USAID's requirements. At a minimum, BASC needs to report on changes in investment, employment (with specifics on women), and sales or earnings at client enterprises receiving assistance from BASC, particularly when such changes are partly related to BASC's assistance.

BASC should undertake a sample survey of what SMEs actually spend on outside consulting services, and the kind of service they purchase.

BASC should assign each member of its professional staff specific responsibility for contacting potential SME clients and selling BASC's services.

BASC should offer to assist IESC in reaching small-scale entrepreneurs, perhaps by organizing a group of similar enterprises to be served by one volunteer executive working for a few days with each enterprise.

If BASC cannot generate enough interest among SMEs for its technology brokerage services, it should spend its resources on training, charging rates roughly equivalent to those charged by other providers of business training services. Both BASC and the Mission should seriously consider the benefits to SMEs of providing basic business texts and materials in Bengali rather than in English.

The Mission should consider using BASC to administer a program that partially subsidizes private sector providers of technical assistance to SMEs. BASC could be authorized to pay part of the training costs of any SME unable to pay the full costs of training provided by a private sector firm or a CCI. This would immediately make the private sector firms and the CCIs more interested in attracting SMEs to their programs.

Bangladesh United States Business Council

No effort should be made to restart BUSBC. Its publications and videotapes are now out of date and are not worth relocating to another entity.

1. Overview of the Industrial Promotion Project

BACKGROUND

The original goal of the Industrial Promotion Project (IPP), as stated in the Project Paper, was to "increase employment in Bangladesh by increasing the number and size of firms in the private sector." Three types of obstacles to development of new business were identified: repressive policies, limited access to capital, and a shortage of good technical assistance. The design of IPP therefore incorporated a threefold purpose: (1) to reduce policy, legal, and regulatory constraints impeding private sector investment and business expansion; (2) to increase access to private bank credit by small and medium-sized enterprises (SME); and (3) to increase business use of improved technology and business practices.

The Project Grant Agreement for IPP (approved August 8, 1989) included a total foreign-exchange funding of roughly $13.5 million dollars, in addition to $4 million dollars of loan guarantees provided by the A.I.D./Washington Office of Investment. The completion date was set for September 30, 1996. Implementation was interrupted and delayed by political turmoil, the election and installation of a new government, the April 1991 cyclone, and the 1991–1992 Gulf War, during which key A.I.D. staff for IPP were evacuated from Bangladesh.

An Action Memorandum of July 21, 1994, made minor changes in the IPP. The current design is essentially the same as the original. Eliminating Phase 2 of the Small Industry Credit Insurance Scheme (SICIS) reduced life-of-project grant funding to $5.6 million. A revised project implementation plan, logframe, and project authorization amendment were prepared. The project goal was restated ("to increase employment, productivity, and competitiveness of private sector enterprises in Bangladesh"), a subgoal was added ("to increase local and foreign investment in the Bangladesh private sector"), and the original purpose was restated ("to reduce policy, technological and credit constraints to private sector investment"). The project outputs and elements remained the same except for a reduction in the outputs expected from SICIS.

Project Description

The IPP is a major A.I.D. project with five components:

- ***Policy Implementation and Analysis Group (PIAG),*** a bilateral component implemented in collaboration with the Ministry of Industries (MOI). The purpose of this component is to strengthen MOI's capacity to conduct policy and other analyses in support of deregulation and reform. It is funded for $1.65 million and is fully operational. The contractor, InterAmerican Management Consulting Corp (IMCC), recently signed a no-cost extension with A.I.D. until August 15, 1995.
- ***Small Industry Credit Insurance Scheme (SICIS),*** a loan portfolio guarantee program aimed at increasing the access of SMEs to commercial bank credit facilities. This component is not funded by Mission resources, but provides up to $4 million in loan guarantees from the A.I.D./Washington Office of Investment, Micro and Small Enterprise Development Program (MSEDP). No private commercial banks have applied for

guarantees, and currently this component is not active. The Mission has rescinded a second phase for this component.

- ***International Executive Service Corps (IESC).*** Under a Cooperative Agreement providing $950,000 in funding, this U.S.-based private voluntary organization (PVO) has established an office in Bangladesh (headed by a Bangladesh country director) and has fielded 34 volunteer executives who have provided 1,960 days of technical assistance to Bangladesh private enterprises.
- ***Business Advisory Services Center (BASC),*** a newly created nongovernmental organization (NGO) that has only recently established itself as an entity separate from MIDAS. At $2.39 million, BASC accounts for 43 percent of the Mission's resources budgeted for the IPP. Although struggling with market and sustainability problems, BASC has provided 38 training events to an estimated 787 persons representing 243 organizations.
- ***Bangladesh–U.S. Business Council (BUSBC).*** A.I.D. funding of $144,000 for this United States–based PVO was fully expended in 1991, and it is no longer operational. BUSBC produced some promotional materials encouraging U.S. investment in Bangladesh, and organized two Bangladesh investment missions to the United States. Nevertheless, it did not manage to achieve self-sustainability.

Evaluation Mission

This report is the first evaluation of the Industrial Promotion Project (IPP). The purposes of the evaluation are to (1) assess project progress to date, (2) help A.I.D., the USAID/Bangladesh Mission, and other project stakeholders identify short- and medium-term ways to improve project performance, and (3) suggest future directions for private sector development in which the Mission might invest.

IPP ACCOMPLISHMENTS AND IMPACT

The PIAG, IESC, and BASC components of the IPP are now operational. BUSBC is completed. SICIS has still not attracted private sector bank participation. The IESC and PIAG components are meeting their principal IPP logframe objectives and contributing to the Mission's strategic objectives. The revised logframe for IPP specifies success indicators as

1. Increased value added of industrial output,
2. Increased industrial private sector employment,
3. Increased private investment as a percentage of gross domestic product (GDP), and
4. Improvement in the Private Sector Index, since renamed the Industrial Policy Index (IPI).

The IPP has had a positive effect on all four indicators at the firm level. The evaluators studied a sample of about a dozen private sector businesses helped by IESC. Most businesses reported a positive impact from IESC assistance and some reported benefitting from the combination of IESC assistance and tariff or other reforms implemented by the government (and advocated by PIAG). A simple aggregation of reported results indicates that IPP programs have contributed to the creation of more than 1,600 private sector jobs (more than 1,000 for women), at least $3 million in new investment, and $5.4 million in value added annually by affected private sector enterprises. A rough estimate of total impact, including multiplier effects, is that IPP has helped private sector businesses add approximately $13 million in income annually to the Bangladesh economy, enough to support 25,000 jobs per year in Bangladesh.

Achievements at the firm level are considerable in relation to the $5.6 million of resources budgeted by A.I.D., of which less than $3.0 million has been spent to date. These achievements are not large enough to register in the macroeconomic indicators related to Bangladesh's annual GDP of $26 billion; however, in calendar year 1994, macroeconomic indicators for Bangladesh did improve significantly as a result of reforms begun with the New Industrial Policy of 1991 and strongly supported by Mission efforts, especially those of PIAG.

Preliminary estimates indicate that GDP grew 4.5 percent in 1994, while inflation fell from 8.9 to 2 percent for the same period. Industrial output, in particular, grew almost 10.9 percent in 1993–1994, up from 5.9 percent in 1990–1991 (see Table 1-1). Actual investments for 1994 grew but remained at 14 percent of GDP, well below the 18 percent required for faster growth of GDP. The number of planned investments registered with the Board of Investment (BOI) surged from $130 million in 1992–1993 to $1.26 billion in July 1993–June 1994.[1]

Table 1-1. Bangladesh National Income and Investment Data

Economic Series	1988–1989	1989–1990	1990–1991	1991–1992	1992–1993	1993–1994
GDP (current prices in US$ billions)	18.2	20.3	22.4	24.0	25.7	26.0
Investment (percentage of GDP)	12.9	12.8	11.5	12.1	13.3	14.3
Private Investment (percentage of GDP)	6.0	6.4	5.8	6.6	7.3	na
Public Investment (percentage of GDP)	6.4	6.4	5.7	5.5	6.0	na
GDP (1984–1985 prices in US$ billions)	12.4	12.9	12.9	13.4	14.0	14.1
GDP Growth Rate (percent)	2.9	2.2	6.6	3.4	4.2	4.5

Sources: 1988–1992 data from World Bank, *Bangladesh: From Stabilization to Growth*, Report No. 12724-BD (March 17, 1994). 1993–1994 data from Metropolitan Chamber of Commerce and Industry (MCCI), *Chamber News*, October 1994.

The market capitalization of securities listed on the Dhaka Stock Exchange increased from $330 million in 1992 to more than $880 million in 1994, aided in part by investment funds from offshore mutual funds interested in Bangladesh as an emerging market. Estimates of the amount of foreign funds involved range from $50 to $200 million.

These achievements would not have been possible without the policy reforms implemented by the Bangladesh government, particularly in the area of currency convertibility and removal of restrictions on investment. Since 1993 PIAG has played a strong role by supporting, advocating, and monitoring the implementation of these and other reforms. PIAG's advocacy also had the good fortune to coincide with a significant commitment to reform from the government elected in 1991 and the leverage of the second World Bank Industrial Structural Adjustment Credit (ISAC-2). The dramatic improvements in the Bangladesh economy seen in 1994 did not occur in response to a single reform, the efforts of a single advocate like PIAG, or a single project like

[1]Reuters News Service, January 23, 1995, supported by published reports of "Foreign Investment Proposals Registered with the BOI" in various issues of *Chamber News*, published by the Metropolitan Chamber of Commerce and Industry (MCCI).

IPP. Credit must be shared by a long list of reform advocates and efforts, including earlier A.I.D. projects. Most reform leaders agree, however, that PIAG and the IPP have contributed at a critical juncture to keeping attention focused on the need for reform and building consensus for reform through public dialog.

MONITORING AND EVALUATION ISSUES

The IPP's five components have required more monitoring and supervision from the Mission than anticipated. The Mission has had to become heavily involved in assisting with administrative and start-up issues, even for the nonbilateral components, which nevertheless required government cooperation and permission for such items as duty-free import of vehicles and computer equipment. There was a major change in government after the IPP project agreement was signed, and initially cooperation from the new government for implementing IPP was not forthcoming. Implementation of various components was delayed, and the Mission was unprepared to respond to the dilemma. Negotiation and pursuit of government cooperation required more staff and effort than the Mission had anticipated. Monitoring of the BASC component also required extra attention from the Mission because MIDAS did not promptly perform its assigned role of helping to launch BASC as an independent entity. Because logistical and administrative issues commanded the agenda and resources of the Mission, NGOs, contractors, and the government, less attention was paid to substantive issues.

The Mission increased staff and efforts in 1993, and by 1994 most implementation problems had been resolved. A Mission Project Review Committee (PRC) also completed a review of IPP in 1994, and the necessary adjustments were made in implementation schedules and budgets.

BUSBC is no longer operational, and monitoring of the IESC, BASC, and PIAG components is adequate. Special monitoring indexes such as the Industrial Policy Index and the Business Efficiency Index should have been better defined earlier in the IPP project, but conceptual agreement of outputs and targets was in place even if the simple tools for measuring progress had not been completely elaborated.

In monitoring PIAG during its remaining months, particular attention must be paid to assessing the potential for continuing some of PIAG's activities within a private sector institution if, as appears likely, MOI and the Bangladesh government do not support continuation of PIAG as a unit within MOI. BASC will continue to need close monitoring as it struggles to find a formula that will allow it to perform its Cooperative Agreement services to SMEs and make significant progress toward self-sustainability.

Evaluation efforts need to be improved for all active components of the IPP, and the Mission's monitoring effort will be needed to achieve improvement. IPP managers of individual components have not been evaluating the impact of their programs on target variables identified in the logframe. They should begin to do so. Evaluation cannot be left entirely to outside evaluation teams. Effectively managed projects should perform regular self-evaluations.

Shortfalls in Indicators and End-of-Project Status

The only logframe outputs unlikely to be achieved before the scheduled completion date are those associated with the SICIS component and the establishment of a PIAG-type unit by the Bangladesh government. Both of these outputs required significant investment by other parties, and it appears that those investments will not be made. Certain of the PIAG component's benefits could be continued if a private sector organization is willing to assume PIAG's role of monitoring reform implementation, sponsoring dialogue between the private and the public sectors, and acting as an advocate for reform. Some of the chambers of commerce and industry (CCI) are already performing the latter two roles occasionally.

The evaluation team recommends against a major effort to establish a permanent policy unit in MOI. There are better alternatives available. The contractor should leave a plan for establishing a policy analysis unit within MOI, as well as guidelines MOI can use to improve its performance as manager of state-owned enterprises (SOE) with a view toward privatization. MOI personnel assigned to PIAG have learned a considerable amount about how to use outside consultants from working with the PIAG contractor.

The SICIS program will not achieve the optimistic target outputs set in the logframe by the scheduled completion date. These outputs include

- Increase of 25 percent in the amount of credit extended by banks to SMEs,
- Increase of 25 percent in the number of businesses receiving credit for the first time,
- Increase of 25 percent in new business starts,
- Program makes 1000 loans to SMEs using guarantees, and
- Small loans ($1,250 to $5,000) make up 25 percent of total loans.

A new approach will be required. The evaluators suggest making an effort to work with the Bangladesh Bank on its loan guarantee program and its program to allow Grameen Bank and the Bangladesh Rural Assistance Committee (BRAC) to issue government-guaranteed bonds. The financial sector in Bangladesh still needs considerable technical assistance in the overall area of evaluating risk and creditworthiness. Technical assistance in this area is likely to help worthy SMEs obtain financing and to help strengthen the financial sector.

BASC Outputs

Although it is budgeted to receive the largest share of IPP resources, BASC does not appear to be producing the bulk of IPP's economic benefits. BASC has to re-engineer itself to reach 14 times more SMEs than it is currently reaching with services priced low enough for SMEs to pay. This will be a difficult task. One possible approach is simply for BASC to use its Cooperative Agreement funds to offer as many training courses as possible in subjects of interest to SMEs. BASC should not try to compete for consultancy contracts with enterprises capable of paying market rates. BASC must improve its monitoring and reporting to the Mission of its estimated impact on the SMEs it assists.

Host Country Contribution

The Policy Review Committee estimated in 1994 that host-country contributions (HCC) for IPP will equal $18.5 million, but $18.3 of that figure was expected to come from private sector investors and banks participating in the SICIS loan program. If no banks participate in the SICIS loan program, estimated host country contributions will be $1.4 million, consisting of $203,000 from the government and $1.2 million from the private sector. This level of HCC participation, which represents 20 percent of IPP funding, is likely to be achieved or exceeded. The value of MOI and other government resources and time allocated to IPP project programs probably exceeds $100,000, especially if the value of duty exemptions on project-related equipment is included.

Private sector participation in the project includes the living allowances that assisted firms have paid to IESC volunteers and funds paid to BASC for training and consulting (approximately $60,000 and $27,000, respectively, as of end 1994). Private sector participation also includes the time private sector enterprises (business, banks, and NGOs) have spent working with IESC volunteer executives (VE) and BASC consultants or attending PIAG or BUSBC functions. Including private sector investments made as a result of tariff reductions and IESC assistance would raise the total by at least the $3 million of investments made by Apex Footwear.

RELATION OF PROJECT TO THE MISSION PROGRAM

The IPP is intended to contribute to the Mission's subgoal of sustainable economic growth with increased participation of the poor, and thus to the primary goal of increasing the proportion of Bangladeshis living above the poverty line.

In particular, the IPP is designed to serve the Mission's PRISM Strategic Objective II, namely, "increased employment, productivity, and competitiveness in agriculture, finance, and industry by (1) strengthening market mechanisms in the agricultural, financial and industrial sectors, and (2) improving technology and efficiencies of business enterprises and business support organizations."

In practice, the PIAG component of IPP also contributes to Mission Strategic Objective IV, "increased accountability of democratic government," and especially Program Outcome IV. 2, "strengthen[ed] systems of formal and informal communication between Bangladesh's citizens and government institutions." The dialogue with public sector officials and bureaucrats that PIAG has triggered has been well received in all quarters. Further, a number of observers have commented favorably on the degree of candor and cooperation that has characterized various discussions.

Bangladesh Government Industrial Development Program

The Bangladesh government's Industrial Development Program, as contained in the New Industrial Policy of 1991, is committed to increasing private sector activity, investment, and employment by means of regulatory reform, privatization, and the reform and strengthening of the civil service to promote rather than regulate industry. Unfortunately the government has not given MOI a major role in this policy and, partly because of this, neither MOI nor the government has taken full advantage of PIAG efforts—and the government will apparently forego the opportunity to continue PIAG operations in MOI after Mission funding ends. In a number of meetings, however, senior government officials have reacted cooperatively to PIAG efforts. The government is also committed to fostering SME development efforts, and appears to have decided on a mechanism to extend credit to microenterprises through the Grameen Bank and BRAC. Because these are private sector institutions with networks that handle credit and could reach microenterprises, the Mission should consider how it can provide technological assistance in this area.

Industrial Development Supported by the World Bank and Other Donors

Implementation of the IPP, especially the PIAG component, has coincided with the World Bank's ISAC-2 agreement with the Bangladesh government to undertake structural adjustment of the industrial sector. Although the two donor projects were not officially linked, they did support common goals. The policy reform matrix used by both was nearly identical, mainly because the Bangladesh consultants who helped prepare the World Bank's matrix went on to work for PIAG. This commonality was especially helpful because the World Bank did not communicate with the Mission and PIAG as well as one would hope.

Donor support to BDG for policy reform and privatization is changing. In summer 1994 the Asian Development Bank (ADB) cancelled a $62.5 million credit agreement tied to privatization of SOEs in Bangladesh because of lack of progress and interest on the part of the government. In

December 1994 the World Bank cancelled the remainder of the ISAC-2 credit ($50 million) after disagreeing with Bangladesh government leaders about an acceptable pace for future reforms. With elections approaching, the government's political will to pursue reforms may be weakening, although both leading parties now espouse policies designed to encourage private sector investment. In the remaining months the PIAG contractor and the Mission should explore opportunities for continuing certain aspects of PIAG's monitoring and advocacy within the domain of some private sector organization that can support policy analysis activity.

CONCLUSIONS

The IPP was in some ways the right project at the right time in Bangladesh. Because the project coincided with the Bangladesh government's reform efforts, the PIAG and IESC components were able to make positive and sometimes dramatic contributions toward the subgoal of promoting private sector investment. It should be recognized that PIAG played more of a supporting than a leading role; however, given the relatively slow pace of reform and Bangladesh's history of weak implementation, PIAG was very helpful to all concerned with tracking progress, advocating implementation, and monitoring the impact of reforms.

The failure of the SICIS component was caused by an overreliance on (1) a Bangladesh private financial sector that was not mature enough to embrace a credit insurance program and (2) banks not strong enough to qualify for participation in the SICIS program. Although SICIS did not accomplish anything directly, it did motivate the government to construct and offer a loan guarantee program of its own through the nationalized commercial banks. In addition, the government is planning to permit Grameen Bank and BRAC to raise funds for credit programs to microenterprises by issuing government-guaranteed bonds. This will have a sizable impact on the small-loan end of the credit spectrum. Some Grameen Bank and BRAC loans may be large enough to address the "credit gap" needs of SMEs in the $1,250 to $5000 range. Even if they are not, the flow of credit into that end of the spectrum will help microenterprises and small businesses.

LESSONS LEARNED

The history of IPP implementation is so filled with interruptions, problems, and delays that it is difficult to identify how things could have been done more effectively. In the opinion of the evaluation team, the Bangladesh government deserves most of the blame for not supporting implementation of IPP. However, USAID appears to have been less than sufficiently prepared to deal with the lack of interest in and support for IPP shown by the government elected in 1991.

Leverage Needed to Influence Policy Reform

Implementation may have gone more smoothly if IPP had been formally linked to the ISAC-2 agreement between the Bangladesh government and the World Bank. Judging from the experience of other developing countries struggling with the pressures of transition policies, it would be wrong to assume that advocacy alone can achieve much without the financial leverage that structural adjustment loans provide. By the same token, the ISAC-2 agreement might have gone more smoothly if the Bangladesh government and the Bank had relied more on PIAG to assist in tracking obstacles and meeting conditionalities.

Structural Adjustment and Small and Medium-Sized Enterprises

The IPP really had two types of goals and component programs, some focused on the industrial sector in general, others focused specifically on assisting SME development. Although it is true that small industries suffer more acutely from repressive reforms than large businesses (which can afford to "work" the system to their advantage), the dual focus did not make implementation of IPP easier Loan size restrictions, for example, would have hampered the SICIS component even if private banks had decided to apply for participation. The IESC and PIAG components have had trouble contributing to the SME goals, and BASC is confused about its proper clientele and target market. Industrial sector reform and assistance to SMEs are two different problems, and little appears to have been gained by trying to tackle both with a single project design. It is difficult to speculate whether implementation of two projects would have been easier or twice as hard; but in retrospect the IESC and PIAG components have been more successful than the SICIS and BASC components. Separately designed and administered projects would have made more sense conceptually and made implementation of each strategy more focused.

Sustainability

No IPP component is sustainable, and none should be expected to become self-sustaining. The Mission's Project Review Committee is correct to assume that a newly created NGO such as BASC will not be able to achieve financial sustainability unless there is compelling evidence to the contrary. On the basis of this assumption, the Mission should prefer project designs that avoid creating new entities and use already viable private sector organizations as vehicles for programs that require sustained application of resources, even after donor funding is reduced or eliminated. At the very least, the subsidy component should be lower, if a program can be located within a CCI or even a private sector service firm. If the program proves not to be self-sustainable, the winding-down process will be less wrenching for an otherwise viable organization than for a newly created entity totally dependent on donor funding.

Certain benefits from the components, as distinguished from the entities themselves, will have a sustained impact—in particular the increase in investment and output that will result from policy reform. In addition, the value added at firms that have successfully implemented IESC VE recommendations will be an annual benefit to the Bangladesh economy.

2. Policy Implementation and Analysis Group (PIAG)

BACKGROUND

The Bangladesh economy is struggling to make the transition from 20 years of state ownership and control to market-driven, private sector activity. It lacks the legal and regulatory framework and the administrative skills needed to make that transition. Furthermore, the commitment to pursuing transition is neither steadfast nor uniform throughout the civil service, where many key officials remain unconvinced of the benefits of private sector development. Proponents of liberalization, however, agree that dismantling repressive policies and state control over resources is the top priority for economic development.

The Policy Implementation and Analysis Group (PIAG) is the one of the key strategic initiatives of the Industrial Promotion Project (IPP). PIAG is a bilateral program instituted to help the Bangladesh government implement the 1991 New Industrial Policy and to assist the Ministry of Industries (MOI) in (1) identifying legal, regulatory, and procedural constraints to industrial development and (2) conducting policy analyses in support of deregulation and reform.

The USAID-funded contractor is the InterAmerica Management Consulting Corporation (IMCC), an 8(a) firm based in Miami, Florida. IMCC contract staff for PIAG consists of an expatriate chief technical adviser (CTA) in addition to a team of between three and six Bangladeshi experts in economic and private sector development serving under long- and short-term contracts. The IMCC staff of PIAG operate out of offices in the Motijheel area of Dhaka, in the vicinity of but not in the same building as the MOI staff assigned to PIAG. According to the Project Paper, "if successful, the PIAG will be established as a permanent unit in the MOI Policy and Planning Division."

Implementation History

Implementation of this bilateral component was delayed considerably by problems within and outside Bangladesh. The project agreement was signed in August 1989, but a project implementation order for the PIAG component was not signed until March 1992. Civil disturbances, the downfall of the Ershad regime, the election of a new government, a cyclone, and the Gulf War all contributed to the delay. In some respects the delay was fortuitous. The new, democratically elected government that came into power issued a New Industrial Policy in 1991 that embraced the principles of private sector–driven, market-oriented development. In addition, the World Bank's second Industrial Sector Adjustment Credit (ISAC-2) was negotiated with the new government, creating $100 million in credits as an incentive for implementing industrial sector reform policies.[2] PIAG, therefore, was able to begin operations in an atmosphere more open and conducive to policy reform than before.

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[2] In December 1994 the World Bank withdrew the remaining $50 million tranche of ISAC-2 credits after disappointment with some Bangladesh government efforts to date and failure to agree with the government on an action program for further progress toward industrial sector reforms.

Project Amendment

The PIAG component was to be completed in September 1994. However, it was extended by the Bangladesh government and USAID to September 1995 (IMCC's contract expires August 15, 1995). A new work plan and a revised technical assistance project paper (TAPP) for government approval were prepared to accompany the project amendment in a bilateral program. The revised TAPP was approved and all documents are consistent with the Mission's amended logframe and the strategic objectives expressed in the Mission's PRISM exercise of 1994.

Project Budget

At the time of the project amendment in July 1994, roughly half of the A.I.D. funds programmed for the PIAG component had been expended. However, it seems likely that virtually all funds will be expended for PIAG by August 1995. The following table shows the use of budgeted inputs as of June 30, 1994.[3]

Budgeted Inputs	*Budgeted Resources*	*Expended Resources*	*Percentage Expended*
Time (calendar months)	36	22	67
Person-months	113	84	73
Money ($ million)	1.58	0.8	50

PIAG ACCOMPLISHMENTS

In some respects for Bangladesh PIAG was the right activity under way at the right time. Despite a difficult start-up, PIAG has made significant progress on two of its three main A.I.D. targets. A thumbnail view of achievements to date is given in the following table.

Target	*Achievement*	*Percentage of Target*
12 regulatory reforms implemented	11 reforms implemented	92
Ongoing Policy Unit in MOI	Mandated in TAPP and under consideration by BDG	50; remaining 50 percent depends on BDG action (unlikely)
20 reports, seminars, workshops	8 reports and 3 seminars completed	50

PIAG will probably reach its targets for reports and for regulatory reforms, but the target of an ongoing unit in MOI is unlikely to be achieved.

[3]Source: Action Memorandum on Approval of Supplement to the Project Paper and Amendment to the Project Authorization for IPP, dated July 21, 1994, from Mr. Peter Amato; and Third Work Plan, September 1994, by PIAG.

Studies and Seminars

As of November 1994 the PIAG staff had produced eight major reports and numerous notes on particular matters (see Exhibit 2-1), conducted three high-profile seminars, and engaged in considerable dialogue with various ministries and spokesmen for the private sector. PIAG's studies and seminars are receiving favorable comments from sources within the government and the business and donor communities. The group's professional reputation is good and its local staff, Dr. Abdur Rab and Mr. Ahmed Ali, are particularly well regarded as advocates for tariff and administrative reforms.

Exhibit 2-1. PIAG Publications

Reports

1. *Background Material on Industrial Policy Environment in Bangladesh: Review of the Liberalization Process*, March 1993
2. *Current Liberalization and Other Economic Reform Issues*, April 1993
3. *Export Performance and Export Policy: Some Interim Recommendations*, June 1993
4. *Current Exchange Rate Misalignment and an Agenda for Its Urgent Reform*, June 1993
5. *Systems and Procedures for Policy Implementation in the Ministry of Industries*, February 1994
6. *Regulatory Constraints to Industrial Development in Bangladesh and Recent Deregulations*, Final Report, January 23, 1994
7. *The Seminar on Regulatory Constraints to Industrial Development in Bangladesh: Summary of Proceedings*, April 1994
8. *Comparative Study of Investment Promotion Policies, Structures and Activities in the Asian Region with Applications in Bangladesh*, draft, September 1994

Other PIAG Policy Publications

1. *Notes on Privatization in Bangladesh*, June 16, 1994
2. *Some Brief Notes on Exports and Export Policy*, March 1, 1994
3. *Some Recent Policy Changes*, April 2, 1994
4. *Accelerating Industrial Development (Matrix of Proposed Policy Actions)*, Working Paper, July 4, 1994
5. *An Approach to an MOI Management Information System*, October 1994
6. *Industrial Policy Quarterly*, November 1994.

Assistance to MOI

PIAG's general approach has been to plan each subtask (report, seminar) with MOI and the Mission, and then use that report to solicit comments and hold seminars or other forums to promote a consensus on regulatory reform. In the process, PIAG is assisting MOI staff in planning studies, developing terms of reference (TOR), using outside consultants, and organizing a public dialogue.

PIAG's work plan outlines six general tasks:

1. Study the industrial regulatory policy framework;
2. Analyze administrative systems, operational procedures, and capacities of MOI and related agencies;
3. Monitor implementation of economic reforms;
4. Study investment promotion;
5. Assess the impact of tariff liberalization on Bangladesh industry; and
6. Develop a consensus for reform.

These tasks, which address the outputs expected of PIAG, emphasize areas (such as trade liberalization and investment promotion) in which PIAG's skills are strong and in which other technical assistance efforts have been under way in Bangladesh.[4] These are areas in which PIAG's efforts are more likely to contribute to actual reforms.

Policy Reform Matrix

PIAG's Report 6, *Regulatory Constraints to Industrial Development in Bangladesh and Recent Deregulations* (January 1994), is a comprehensive overview of the problems of and recent opportunities for industrial development. The report reviews progress and reforms still needed in

- Investment controls
- Quotas on imports
- Banking regulations
- Legal reforms
- Exchange controls
- Export controls
- Labor regulations
- Industry reforms.

The 9-page recommendation section contains 54 recommendations that are generally consistent with the Mission's Policy Agenda Matrix (59 points) of September 28, 1994, and with the list of reforms in the World Bank's ISAC-2 agenda, which also has a policy matrix.

Monitoring Implementation of Reforms

Task 3 in PIAG's work plan involves implementation. PIAG uses a Policy Reform Matrix developed from its own Report 6 and the feedback received in seminars, to monitor implementation of reforms (see Appendix G). Several observers believe this monitoring activity to be PIAG's most important contribution to reform efforts. PIAG's work plan for 1995 includes plans to use the matrix as the basis of targeted discussions ("Key Person Forums") with policymakers and private sector leaders from affected industries. The evaluation team agrees that periodically updating the matrix and using it to hold discussions of issues and progress should be a PIAG priority—especially in view of the cancellation of the ISAC-2 credit in December 1994, which is likely to diminish the use of the World Bank's list of policy reforms, at least as a working agenda.

IMPACT OF PIAG

PIAG has been active during a period of major economic and political reform. The repercussions of those reforms have been large enough to register a significant improvement in the performance of the Bangladesh economy. Reforms spurred an industrial growth rate of 10.9 percent for FY 1993–1994 (July–June). This rate was almost double the 5.9 percent growth rate in FY 1990–1991 and was Bangladesh's first double-digit industrial growth rate in many years. Inflation fell from 8.9 percent to 2.5 percent over the same period. Exports increased by 20 percent and foreign exchange reserves rose to $880 million, enough to cover 7 months of imports.

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[4]The Finance and Investment Advisory Service (FIAS), the technical assistance arm of the World Bank and the International Finance Corporation (IFC), is advising the Bangladesh Board of Investment (BOI) on restructuring itself, liberalizing policy, and simplifying registration. The Bangladesh Tariff Commission has a technical assistance project under way to strengthen its ability to analyze and rationalize tariff policies.

Most important, total annual investment, which averaged $130 million annually from 1991 to 1993, surged to $1.26 billion in 1994. These achievements will make a dramatic difference in the economy of Bangladesh, improving the employment and income opportunities available to the average Bangladeshi. These results did not occur in response to a single major reform, the efforts of a single advocate like PIAG, or a single project like the IPP. However, PIAG and the IPP did contribute at a critical juncture to keeping the momentum of support for reform moving ahead.

Reform leaders in the public and private sectors believe that PIAG publications and discussion forums helped (1) facilitate and accelerate implementation and (2) educate private sector businessmen and senior civil servants on the purpose and importance of the reforms. PIAG's efforts also helped the Mission and other donors organize and track the progress of reform in a more coordinated fashion.

PIAG's Contribution to Reform

Reform agents within and outside of the Bangladesh government generally praise PIAG's as a strong voice in the "chorus" for reform and deregulation in Bangladesh. PIAG's reports are considered more professional and analytical than most pieces advocating reform. Other reform agents are impressed with PIAG's reporting on the implementation and impact of reforms, and with the "face-to-face" sessions that MOI and PIAG have held with the government agencies responsible for implementation. A description of PIAG's role in one case of regulatory reform appears in Exhibit 2-2.

Exhibit 2-2. Example of PIAG Intervention

> The clearest example of PIAG's direct efforts to influence regulatory reform concerns foreign joint ventures and the Securities and Companies Commission (SEC). PIAG was involved in efforts to remove a requirement that foreign joint venture partners obtain permission from the SEC prior to selling their shares to other partners in the same joint venture. A number of foreign joint venture partners wished to sell their shares to Bangladeshi partners. Although there seemed to be no specific provision in law, the SEC appeared to be exercising authority to grant clearance for such sales. On February 28, 1994 the PIAG Director, Dr. Ronald Black sent a copy of Dr. Rab's report on the issue to Mr. Sultan-Uzaman Khan, Chairman of the SEC. Mr. Khan responded on March 20 denying that there was any requirement for permission. After further talks and correspondence between PIAG and SEC, it was agreed that in fact foreign investors were still approaching the SEC for permission to sell their shares. The SEC issued a draft announcement on April 11 notifying all concerned parties that such clearance was no longer necessary. After further discussion a final regulation was promulgated April 12, in which PIAG played a small role drafting, because of its concerns that some SEC language used in the official announcement might be misinterpreted by lower level government officials as grounds for exercising authority in this area. Selected correspondence relevant to this case appear in Appendix H.

Some reformers see special value in the fact that PIAG operates as part of MOI, and that MOI implicitly endorses PIAG's type of analysis and advocacy. Although the Secretary of Industries has not circulated any of PIAG's reports as official MOI releases, he has expressed the intent to do so in the future.

It is somewhat academic to attempt to identify PIAG's particular contribution to the reform effort. However, PIAG has identified, for the evaluators and the Mission, 11 reforms implemented by the Bangladesh government in 1994 that correspond to reforms PIAG has advocated in one or more of its reports and seminars (see Table 2-1). Three of the 11 regulatory reforms correspond to high-priority A items in the Mission's Industrial Policy Index (see Appendix I). In a few of the cases, there is evidence that PIAG played an important, possibly critical role; however, in all cases, reform efforts other than PIAG's were also at work and had been for some time.

Table 2-1. Estimated Impact of Regulatory Changes Recommended in PIAG Reports and Implemented by BDG

No.	Policy Change	Type of Impact on Economy	Estimated Economic Impact
1	Automatic registration at Board of Investment (BOI)	Cost saving at investment stage	$1 million annually
2	Ending of SEC clearance for sales of shares in foreign joint ventures	Cost saving at investment stage	Small
3	Elimination of passbook requirement for non-restricted import categories	Cost saving	Not estimated
4	Full exemption of duties for imported machinery for 100 percent export-oriented factories outside the export zones without bank guarantee	Cost saving	Not estimated
5	Development of database for Dhaka Stock Exchange	Improved market efficiency	Small
6	Increase of cash compensation to local fabric suppliers of export units from 15 to 25 percent	Correction in anti-export bias and improved market efficiency	Small
7	Exemption of duty on raw hides and skins for leather producers with bank guarantee	Cost saving	$3 million investment from one firm
8	Withdrawal of Bangladesh Bank controls on various categories of lending	Increased efficiency of banks and capital markets	Not estimated
9	Further relaxation of controls on foreign exchange, leading to full convertibility on current account	Major cost savings and powerful effect on investment climate	Very large
10	Full convertibility on capital account	Major cost savings and powerful effect on investment climate.	Very large; more than $100 million in 1994
11	Labor law reform	Cost saving and improvement in productivity and investment climate	Large

Source: PIAG Memorandum on Policy Changes Following PIAG Representations (see Appendix G).

Discussion forums sponsored by PIAG have helped identify additional regulatory problems not previously featured in most lists of needed reforms. A number of these newly identified problems arise from ineffective or improper implementation or administration of announced reforms. This is expected to be a major problem in Bangladesh because reforms are being promulgated from the apex of government without concomitant retraining for middle- and lower-level civil servants. As particular implementation shortcomings come to light, PIAG adds them to its Policy Reform Matrix.

Most observers in the public and private sectors agree that regulatory reform in Bangladesh is occurring only as the cumulative result of considerable efforts past and present from many quarters—in particular, the reform leaders in the newly elected government, aided by the leverage (until December 1994) of the ISAC-2 funds from the World Bank.

Economic Impact of Regulatory Reforms

Reforms either remove an absolute barrier to investment, reduce transaction or operating costs, improve the functioning of markets, correct a bias created by regulations, or simply improve the investment climate. The impact is easier to estimate for some types of reform than for others.

PIAG has not made a concerted effort to assess the impact of regulatory reforms on key economic variables such as investment, employment, productivity, and competitiveness, even though these are mentioned in the Mission's logframe. Impact evaluation is not an exercise to be left entirely to an evaluation team. PIAG should be making an effort to estimate the impact of reforms, especially those that it has influenced or can influence critically. The nation needs to know which reforms are likely to have the largest impact on the economy. In addition, the Mission and PIAG need to know how efforts are contributing to IPP subgoals and the Mission's strategic objectives.

Table 2-1 lists the 11 regulatory changes selected by PIAG and describes generally how each reform would affect the broader economy. Although there were no quantitative estimates of impact and very little data available to review, the evaluation team, with PIAG's cooperation, attempt rough estimates of the macroeconomic impact of four of the regulatory reforms for which some data were available (see Exhibit 2-3).

Exhibit 2-3. Impact of Selected Reforms

Reform 1: Automatic BOI Registration

Before this reform, registration of an investment project was a mandatory and time-consuming process, especially for foreign investors. Simplification of registration was a goal of the FIAS consultancy in the Board of Investment and one of the reforms advocated by PIAG. After procedures for automatic registration were introduced in March 1994, approximately Tk. 25 billion ($600 million) of investment projects were registered with the Board of Investments in the next two and a half months. The highest *annual* figure prior to reform was Tk 1.7 billion ($43 million) for all of 1993. By the end of 1994 new registrations had settled back to a rate of Tk 1.6 billion ($40 million) per month.

Economically, the faster registration process saves investors time and, as a result, up-front investment cost. Even if only 10 percent of the newly registered projects save an average of 2 months of implementation, the value to the Bangladesh economy will be about $1 million annually at current levels of investment, and higher in the future as these levels rise.

Reform 7. Reduced Tariffs on Leather

Bangladesh's leading exporter of finished leather products has invested $3 million in an expansion program that will enable it to increase its annual shipments from $5 to $10 million. The decision to invest would not have been made if Bangladesh had not reduced the tariff on raw leather for shoe soles from 60 percent to 10 percent. Before this new investment, the Industrial Promotion Project had provided the technical assistance of an IESC VE to this producer. The new plant will create approximately 400 new jobs, including 350 for women. The tariff reduction is also likely to encourage similar investment by other leather footwear industries.

Reform 2. Ending of SEC Authority over Internal Sale of Joint-Venture Shares

Several international joint ventures were able quickly to transfer ownership of foreign shares to Bangladeshi partners. This reform did not create any new jobs directly, but without it some Bangladeshi partners would not have been able to take over operating control as easily and jobs would likely have been lost.

Reform 10. Convertibility for Capital Account Transactions

The full impact of this reform is huge, and it has a catalytic effect in combination with the other reforms. Convertibility is generally considered a *sine qua non* for triggering a significant increase in foreign private sector capital inflows. Preliminary estimates indicate that direct investment in Bangladesh increased from $130 million in 1992 to $1.3 billion in 1994, with expectations for even more investment growth in 1995. This has allowed GDP to grow at a 10 percent rate, Bangladesh's first double-digit growth rate in many years. Estimates of the inflow of foreign portfolio capital into Bangladesh range from $50 to $150 million. Such funds almost never flow into a country that has not offered foreign investors full convertibility for capital transactions.

Some reforms will have a greater impact than others. Achievement of full convertibility, for example, could eventually generate billions of dollars of investment. Also, because reforms frequently reinforce each other, their combined impact tends to be greater than their individual impact, and the impact of later reforms depends on preceding and coincident reforms. Efforts to determine the precise economic impact of individual reforms may not be worth the added accuracy—especially if they stray from the main point, namely, that the government's reforms to date have already triggered almost $1 billion of additional investment planned by private sector enterprises. This is the economic impact that IPP planners, the Mission, the BDG, and the nation of Bangladesh are hoping for.

Impact of PIAG on MOI

The chief technical adviser and staff have conferred with their MOI counterparts on all PIAG activities. They have also helped MOI management in a number of activities not directly related to PIAG's work plan but conducive to building mutual trust and respect.[5] MOI has organized a Steering Committee with representatives from the Ministry of Planning and the Metropolitan (Dhaka) Chamber of Commerce and Industry (MCCI) to facilitate implementation of the PIAG component. MOI has helped PIAG circulate draft reports and arrange discussions with government agencies, including SEC, whose regulatory powers affect industry. MOI's name is on all the PIAG reports circulated as discussion drafts, but the ministry has not officially endorsed any report or set of recommendations.

Otherwise, MOI staff have not been actively involved in conducting PIAG's analyses or producing the reports. MOI's designated project director and assistant project director are in charge of a staff of three, one deputed from the Board of Investment and two seconded from Bangladesh Chemical Industries, a state-owned enterprise within MOI. MOI officers assigned to PIAG point out that their portfolios of normal MOI responsibilities, which continue to be full, demand considerable time and constrain their ability to interact with PIAG. There is also some sentiment in MOI that the staff deputed by the BOI and SOE are not of high enough caliber to continue PIAG-like activities after IPP concludes.

A draft of PIAG Report 5, *Systems and Procedures for Policy Implementation in the Ministry of Industries*, whose TOR were approved by MOI, was completed in March 1994 and served as the focus of a PIAG seminar for public and private sector leaders in late 1994. The Secretary of Industries and the MOI project director have expressed interest in the report, particularly the recommendations for an improved management information system (MIS). PIAG is exploring ways to assist the ministry in this area, either through designing a simple MIS that uses the ministry's existing computers or drafting a TAPP for a more ambitious program that would seek new funding.

Training Activities

PIAG is still working on integrating training activities into its work plan. The only formal training activity mentioned in PIAG reports was a trip to Chile in 1994 by the Secretary of Industries accompanied by an IMCC officer. A study tour of investment promotion activities in newly industrialized Asian economies is under discussion for 1995. MOI and the Steering Committee

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[5]The PIAG CTA estimates that 20 percent of program time and resources have been devoted to MOI priorities not covered in the PIAG work plan.

initially cut training from the PIAG work plan, but later agreed to reinstate activities that supported other approved PIAG tasks.

Key MOI personnel below the very highest officer levels are not involved in PIAG's activities or discussions. For example, the head of MOI's Monitoring and Evaluation Unit has not been invited to the PIAG seminars by MOI's project director for PIAG.

Outlook for Continuing PIAG in MOI

The outlook for PIAG becoming a permanent unit within MOI, or for its activities being continued after A.I.D. funding ceases, is not good. In the evaluators' opinion, the contractor is doing all that can be done, but MOI and the Bangladesh government have not placed a high priority on the continuation of, or MOI participation in, PIAG. The Industrial Promotion Project and PIAG were designed at a time when MOI was led by a dynamic minister who would probably have used PIAG to increase MOI's role in policymaking. Since the change in government, however, there has been a succession of MOI secretaries, the ministry's role in policymaking has been reduced, and the ministry has returned to its daily agenda of managing state-owned corporations. Some observers believe MOI is too protective of the SOEs it manages and not effective in preparing or pushing for privatization. As long as MOI manages the state-owned and subsidized corporations, it is a less-than-ideal platform for a reform-oriented policy analysis unit. Moreover, if MOI is not aggressively involved in privatization, the case for strengthening it as an institution is also weak.[6]

The current Secretary of Industries of MOI has now had an extended opportunity to work with PIAG and see how a policy analysis group within MOI can operate. General reaction within MOI to PIAG's study of institutional strengthening for MOI has been positive, but there has not yet been much evidence of strong interest in continuing PIAG as a unit within MOI. Indeed, the Secretary speaks as if continuation is not an objective. Some Mission members have also expressed the opinion that the absence of demonstrated government support for industrial policy reform makes PIAG's longer-term sustainability unlikely. But the goal of a permanent cell still exists in the logframe and the TAPP.

CONCLUSIONS

PIAG has managed to make a positive contribution to the policy debate and can at least partly be credited with helping to achieve policy reforms that have encouraged new investment and created jobs.

Although planned investments have surged, the increase in actual investment has been far less apparent. Investors encouraged by policy reforms have made plans and registered with BOI, but actual investments have been slow to appear. Investors are likely encouraged by new reforms, but are still cautious about investing major amounts.

Although senior MOI officials have cooperated with PIAG and used the MOI as a platform for reform advocacy, MOI will not be able to continue the PIAG unit after USAID funding for the unit ends. MOI has not made the decisions, staffing assignments, resource allocations, and other efforts necessary either to (1) work closely with and learn from PIAG experts or (2) enable MOI

[6] Even responsibility for privatizing the SOEs has been vested in a new Privatization Board (formed in July 1993), of which the Secretary of MOI is 1 of 11 members.

to continue PIAG practices and techniques. The evaluation team believes this is mainly because MOI's policymaking role within government has declined since IPP was designed.

Despite the lack of enthusiasm for continuing PIAG, there is still a need for policy reform research and advocacy in Bangladesh. There is also a need for technical assistance in support of civil service reform, especially a program aimed at the middle levels of the civil service.

From the perspective of the private sector, there is also a need for an ombudsman service that will monitor implementation of reforms, report lax implementation or abuses, and champion the cause of small businesses that are burdened by unnecessary regulatory and bureaucratic obstacles.

Cancellation of ISAC-2 probably signifies a slackening in the pace of reform within the Bangladesh government, at least until after the next election in 1996. Fortunately, the benefits of reforms to date have been evident enough that both leading political parties now endorse market-oriented reform in public. The current round of reforms have galvanized some opposition forces, however, and the next round might require decisions that are even more politically unpopular, such as privatization and closure of SOEs. The current government may be reluctant to proceed with the next round of reforms or may simply hope to consolidate gains and let the opposition cool before proceeding. Whatever the case, PIAG and the Mission could play an important, albeit brief, role while the World Bank's ISAC-2 agenda is in abeyance by (1) helping the government to continue those reforms it wishes to pursue and (2) continuing to present the arguments in favor of undertaking tougher reforms. The Mission should harbor no illusions about the difficulty of mobilizing support for politically risky reforms without the leverage of sizable adjustment credits. Performing a supportive intermediary role in this period, however, may ingratiate the Mission to BDG for future policy assistance.

RECOMMENDATIONS

The evaluation team has several recommendations for strengthening the impact of the PIAG component during the remaining period of its operations. Some of these recommendations have already been incorporated into PIAG's own work plans, but are still worth mentioning:

- **Emphasis on implementation.** The PIAG unit should focus on the *I* in its name by monitoring the implementation of regulatory reform and measuring its economic impact. It should highlight ineffective, distorted, or subverted implementation. Although a number of groups are actively suggesting or drafting reforms, PIAG is the only group the evaluation team knows of that purports to track implementation and impact using economic analysis. Business groups report on how changes affect their members, but rarely attempt to estimate the impact on the national economy.
- **Narrower focus.** PIAG should focus on a few significant reforms. From the large list of reforms advocated, PIAG needs to select the 12 worst impediments to industrial development that it will track and report on. In choosing what issues to advocate, PIAG should make rough estimates of the impact that reforms will have on the economy. An implicit cost–benefit methodology underlies the scoring hierarchy in the Mission's Industrial Policy Index.
- **Program modifications.** PIAG should continue its planned program of studies, seminars, and workshop sessions. A few modifications are suggested:

1. More attention should be devoted to the Policy Reform Matrix. (PIAG's Third Work Plan already plans for this.) In addition to updating the matrix periodically, PIAG should consider adding columns that report on the status of implementation, citing next action needed and the agency responsible. A column estimating impact (or the cost to the economy of *not* acting) could also be added.
2. PIAG should try to estimate impacts of potential and actual reform. It should use microeconomic logic and its communication links to businesses likely to be affected by reforms to (1) identify the type of impact a reform is likely to have and (2) make rough, illustrative estimates of the impact when possible. This will be easier in cases where the impact is to reduce investment or transaction costs for private sector businesses. The impact of more general contributions to the investment climate or improved functioning of markets may not be measurable; however, relevant indicators (such as investments registered at the BOI and Dhaka Stock Exchange activity) should be monitored. A rigorous methodology is not required to illustrate the probable scale of impact and importance of reforms. Quantitative estimates from PIAG will help the Mission assess how much the regulatory reform effort is contributing to its strategic objectives. Quantitative estimates may also help forge the link in the public and bureaucratic consciousness between reform and economic benefits—as well as the opposite link between failure to act and economic impoverishment.
3. In its program of remaining studies PIAG should try to incorporate at least one example of an industrywide analysis of obstacles to industrial investment and production. In addition to regulatory constraints on development, this analysis should feature other obstacles such as limited infrastructure and unfair competition from subsidized government monopolies. This type of analysis could be incorporated into one of the investment studies PIAG is planning. It could also be coordinated with other Mission research efforts under way in Bangladesh, such as the study of the electric power sector.

- **Dissemination and coordination.** The PIAG unit should continue to forge its intellectual linkages with other reform agents as follows:

1. Strengthen contacts with chambers of commerce and industry (CCI) and other business service groups, such as the Business Advisory Service Center (BASC), that have links to small and medium-sized enterprises. PIAG should identify for the Mission potential successors that could continue PIAG's efforts to maintain the Policy Reform Matrix even if a permanent unit in MOI is not established.
2. Maintain formal and informal contacts with the World Bank, which will probably need PIAG assistance in regrouping its own efforts for reform. In return, it is hoped the World Bank will be more cooperative with PIAG. PIAG should also develop stronger links with the Asian Development Bank.
3. Establish liaisons with experts on legal reform and tax policy in Bangladesh and elsewhere before proceeding with extensive work in these areas.
4. Promote adoption and institutionalization of PIAG work by MOI and its permanent staff by (1) inviting selected MOI staff to its seminars (middle-level as well as senior-

level staff), (2) providing in-house briefings and discussions on PIAG activities, and (3) using MOI staff in PIAG studies if possible.

5. Consider adopting an even higher profile or becoming more confrontational as the time remaining to influence policy diminishes. Informally, PIAG or the Mission should first consult with other reform leaders in Bangladesh to determine if such an approach by PIAG would be advantageous at this time.

Discontinuing PIAG as a Unit in MOI

The evaluation team recommends against establishing a permanent PIAG-type unit within MOI. The MOI needs an unit that will focus on the ministry's needs for institutional strengthening and management of SOEs. Establishing such a unit would be consistent with the Mission's strategic objectives only if (1) MOI is more involved in privatization and (2) privatization is more clearly linked to development of private sector employment and SMEs. The latter is possible, but the former is unlikely in the foreseeable future.

The Mission and MOI need to review the priority placed on the goal of a continuing PIAG-type unit in MOI. If this is a high priority, the Mission, PIAG management, and MOI need to take definitive steps toward developing plans for a successor unit. Administrative actions and plans to secure personnel and resources require immediate attention. These plans have to be developed mainly by MOI with assistance from PIAG. In the short run PIAG can (1) encourage MOI to commit to developing its own policy unit, (2) assist MOI in developing plans for such a unit, (3) encourage the Secretary to follow through on his commitment to disseminate PIAG reports under an MOI cover letter signed by him, and (4) assist MOI in selecting personnel and arranging for training.

The Mission should be clear about the nonavailability (or limited availability) of funds for continuation of such a unit. PIAG can also help the ministry develop a TAPP that is not premised on A.I.D. funding.

The Mission and the PIAG advisers can influence but cannot force this issue. If it appears that sufficient interest or resources are not forthcoming from MOI, PIAG should aim to end its work with MOI—having done an effective job of demonstrating (1) how a policy unit works and (2) how MOI can use consultants to undertake policy studies. PIAG can also leave MOI with guidelines and an agenda for continuing a policy unit, should the ministry choose to do so at some later date.

Alternatives for Policy Reform Assistance

Although PIAG should finish its current work program within MOI, the goal of establishing a permanent policy analysis unit in MOI should be reconsidered in the light of MOI's changed situation and alternative designs that might be more effective.

The Bangladesh government continues to need assistance in strengthening its policy analysis capabilities and its administrative abilities to implement reforms. Both the government and donor institutions have relied on Mission assistance in these areas for some time, most recently through the Financial Sector Reform Project (FSRP) and IPP. The Mission should continue to offer the government such assistance when and where possible. Real policy design and advice should be located closer to those areas of the government that are engaged in policy decisions and drafting, such as the Prime Minister's Office, the MOI or the Privatization Board, or the BOI. The evaluation team recognizes, however, that these entities have not previously been receptive to foreign-funded policy cells, and that it is probably best for the Mission to wait until clear support and momentum for this type of assistance emerges. There are reasons to expect that the government will once again embrace this type of assistance. The next phase of reform will be politically more difficult and the government may perceive a need for assistance in educating the public and preparing public opinion. Policy analysis and advocacy will continue to be an important facet of promoting a consensus for reforms. And liberalization, along with an improved administrative capacity on the part of government, continue to be two keys to accelerating economic reform in Bangladesh.

If the government is not interested in a policy analysis unit, there are institutional locations outside the government that can perform some of PIAG's functions and serve the Mission's strategic objectives. These locations include (1) private sector organizations such as the Federated CCI and (2) government–private sector initiatives such as the Investment Task Force headed by Murshed Khan.

PIAG's work of monitoring the impact of government sector regulations on private enterprise and acting as ombudsman for private sector interests could be vested in a private sector organization such as a CCI, which could also continue PIAG's efforts to organize public forums for policy discussions, communication between industry and government, and consensus building.

There is a possibility that the Federation of CCIs or the Investment Task Force would be interested in hosting a PIAG-type unit in order to have a capacity for professional policy analysis and a better platform for dialog between the public and private sectors. Those PIAG tasks that require longer-term professional analysis should be undertaken by respected research institutions in Bangladesh, funded and sponsored jointly by the public and private sectors.

3. Small Industry Credit Insurance Scheme (SICIS)

BACKGROUND

The subgoal of the Investment Promotion Project (IPP) is to "increase local and foreign investment in the Bangladesh private sector." The purpose of the project is "to reduce policy, technological, and credit constraints on Bangladesh private sector investment." The Small Industry Credit Insurance Scheme was designed to make a major contribution to reducing the credit constraint by creating "increased access to private banks's lending by micro, small, and medium businesses." It was projected that the private banks and financial institutions would use the SICIS program to generate $32 million in new loans and lines of credit to industry, including at least 1,000 loans of $50,000 or less to small and medium-sized industries. The economic evaluation for the IPP project paper rested almost exclusively on benefits projected to flow from investments generated via the SICIS component. To date, however, the SICIS component of the IPP is not operational. No banks have joined the program and no loans have been made. Although a similar guarantee program was very successful in Sri Lanka, private sector banks in Bangladesh have not responded.

IMPACT OF SICIS

The Loan Portfolio Guarantee (LPG) program embodied in SICIS has not been successful in Bangladesh. It has not been embraced by the private banks. The program did receive Bangladesh government approval to operate, and the government has not prevented or discouraged any banks from applying. The Medium and Small Enterprise Development Program (MSEDP) representative (Ms. Judith Evans) from Washington, together with USAID/Bangladesh, launched a well-attended introductory seminar in October 1993. Follow-up included a return visit by Ms. Evans in April 1994 to interview interested banks. Special financial and credit evaluation workshops for potential banks and borrowing businesses were held in August 1994. Although several local banks expressed interest in the SICIS program, only one bank, the Bangladesh office of ANZ Grindlays (ANZ/Bangladesh), reports making efforts toward applying. The SICIS program will not achieve the optimistic target outputs set in the logframe by the scheduled completion date. These outputs included

- Increase of 25 percent in amount of credit extended by banks to SMEs,
- Increase of 25 percent in the number of businesses receiving credit for the first time,
- Increase of 25 percent in new business starts,
- Program makes 1,000 loans to SMEs using guarantees, and
- Small loans ($1,250–$5,000) make up 25 percent of total loans

Despite the lack of direct impact, the SICIS program has to be credited with a remarkable indirect or demonstration effect, namely, encouraging the Central Bank of Bangladesh (Bangladesh Bank, or BB) to inaugurate its own small-loan guarantee program for all the banks, including the nationalized commercial banks (NCB). Unfortunately, BB's year-old program has not met with widespread enthusiasm from banks either and, as of October 1994, has resulted in fewer than two dozen new loans to industry. The SICIS component of the IPP may also have been the inspiration for the Ministry of Finance to allow two large financial NGOs (Grameen Bank and the Bangladesh Rural Assistance Committee, or BRAC) to issue government-guaranteed bonds (totaling up to $40 million for both NGOs) to support their own lending and investment programs to small and microenterprises.

Expected Demand for SICIS Resources

For the foreseeable future, the expected demand for SICIS resources by private banks in Bangladesh lies somewhere between $0 (zero) and $1 million. The evaluator is aware of only one private bank, ANZ/Bangladesh, that is taking steps to apply to A.I.D./Washington for enrollment in the program. ANZ/Bangladesh has requested permission from its Bombay regional office to apply to the program for coverage on a portfolio of up to $1 million. They envision a portfolio of six or seven loans, each at or near the Tk 6 million ($150,000) loan limit specified by current MSEDP guidelines. Approval by the Bombay regional office will also have to be confirmed by ANZ's London office. The best contact in ANZ, Mr. Arshadul Haq,[7] says he has started work on the application, and that ANZ/Bangladesh has included the SICIS guaranteed loans as part of their FY 1995 plan, which started in October 1994. Once ANZ is inscribed in the program, he estimates the seven loans would be made within 6 months.

The Mission is assisting ANZ/Bangladesh, most recently with a request by ANZ/Bangladesh to know if participation is possible without granting the SICIS program auditors access to ANZ's books. Ms. Judith Evans reports that ANZ/Nepal applied to the credit guarantee program and was enrolled, and paid the enrollment fee. Subsequently, however, no requests for insurance coverage were made and the enrollment of ANZ/Nepal was deactivated.

Other Possible Users

The evaluator also learned from Ms. Evans that the MSEDP office has files relating to two leasing companies in Bangladesh, the Industrial Development Leasing Company (IDLC) and the National Leasing Company (NLC). Apparently the leasing companies applied to the USAID's LPG program in 1990, but were not accepted because their capital base was small and they had been in operation for less than 3 years. These two financial institutions are worth visiting again. They have both had respectable financial performances since 1990.

The evaluation team did not have the opportunity to visit the Bangladesh branch of Standard Charter (SC) Bank. However, SC is worth approaching because several branches of SC participate in the USAID LPG programs offered in African countries. Also worth visiting at least once more are the International Finance, Investment, and Commerce Bank (IFIC) and the Industrial Promotional Development Company of Bangladesh (IPDC), a nonbank financial institution (and principal owner of IDLC). Both have expressed modest interest in the program.

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[7]Mr. Arshadul Haq, accounts manager; tel. 864425.

BUDGETED RESOURCES

SICIS is centrally funded from MSEDP, which believes the program can be run without Mission funds. In the Mission's current design for the IPP, no funds have been provided for personnel or other direct costs in Bangladesh. The insurance guarantee can be reviewed, granted, and managed by the Washington program. Once issued, insurance guarantees will remain in effect for 5 years, and claims will also be managed from Washington. No Mission funds have been directly used for SICIS. However, some funds from the Business Advisory Service Center (BASC) have been used to sponsor seminars and training programs in support of the SICIS program.

ANALYSIS OF LACK OF RESPONSE

Bangladesh's financial sector is not developed enough to respond to programs like SICIS. The domestic private sector banks are not strong enough financially to qualify. Four of the private domestic banks (Pubali, Rupali, Al Baraka, and Eastern [formerly BCCI]) are technically bankrupt. The Dhaka Stock Exchange (DSE) "Investment Scoreboard" for September 1994 shows their net worth as negative. A fifth bank listed in the DSE, Uttara Bank, has not had an annual general meeting since November 1992.[8] The foreign-owned private sector banks could qualify, but are not organized or eager to lend to SMEs. They lack the branches and staff necessary to pursue and monitor such loans. The SICIS program would be more successful in Bangladesh if the financial sector were more developed, if banks were healthier, if bank officers understood risk and how to manage it, if the courts and legal systems supported creditors' claims, and if banks competed against each other to attract good SME borrowers. None of these conditions are currently true for Bangladesh.

Small Industries Loan Guarantee Program

Late in 1993, shortly after learning about the proposed SICIS program, BB introduced its own Small Industries Loan Guarantee (SILG) program. BB did so even though the Ministry of Finance had already permitted the Mission to offer the SICIS program to banks in Bangladesh. Apparently BB was not averse to having both programs offered simultaneously. The two programs are similar, but they overlap without duplicating each other. The SICIS program is restricted to private sector banks, which account for about 35 percent of all advances outstanding to small private industry. BB's program is offered to all banks—including the state-owned NCBs with their thousands of rural branches, which account for about 49 percent of all advances made to small industries.

The weak response to SICIS was definitely not caused by the introduction of the SILG program. Most banks interviewed considered SICIS superior to SILG. Introduced in December 1993, SILG had received a total of only 20 applications from five banks as of October 31, 1994. The 16 applications that have been approved provide guarantees of Tk 25 million ($625,000) on loans worth Tk 66.7 million ($1.7 million). Participating banks so far include Sonali Bank, with nine loans; Janata Bank, with four loans; and the Bangladesh Small Industry Corporation (BASIC), the Bangladesh Shilpa Bank (BSB), and Agrani Bank, with one loan each. BB has sent letters to several banks complaining about their lack of response to this program.

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[8]The public availability of better information on banks' financial condition is a considerable achievement in transparency and market development for Bangladesh. It is one indicator of the progress achieved under A.I.D.'s Financial Sector Reform Project (FSRP) project.

Industrial Credit Programs of Other Donors

There are two other sizable industrial credit programs operating in Bangladesh, one sponsored by the World Bank's International Development Association (IDA), the other by the Asian Development Bank (ADB). IDA's program is oriented toward large industries, while ADB's is nominally targeted to SMEs. Only IFIC and IPDC participate in the private sector industrial credit program sponsored by the IDA program. This program has provided about Tk 122 million ($3 million) to five big private sector projects in textiles, garments, and cement. The ADB has operated a Small Industry Credit Program budgeted for $30 million since 1991. Although that amount was supposed to be fully disbursed by 1994, only about $15 million has been disbursed, and only $20 million committed. A 1-year extension has been arranged. The banks participating in the scheme are Arab Bangladesh Bank, National Bank, United Commercial Bank, IFIC, and BASIC. BASIC has been the most active participant.[9] Unlike SICIS, these credit programs provide credit lines, not just insurance. Like SICIS, however, these programs have also struggled with weak responses, long delays, and underutilization of resources budgeted for credit to industry.

CONCLUSIONS

The Mission cannot expect an effective response from Bangladesh's private sector banks to SICIS, at least not a response large enough to be significant. It is unlikely that more than three banks will participate in SICIS. Any banks that do participate will probably plan loans in the $150,000 range aimed at medium-scale enterprises.

The SICIS program did not directly improve SME access to commercial credit. However, promotion of the SICIS program did encourage the Ministry of Finance and BB to focus on the problem and on how guarantee programs might solve it. This prompted MOF to undertake some of its own "guarantee-related" initiatives to assist SMEs, including its own loan guarantee program and a plan to allow government-guaranteed bond issues by NGOs such as Grameen Bank. IPP deserves at least partial credit for this achievement, even if the result was indirect and unexpected.

RECOMMENDATIONS

The Mission should continue to encourage and cultivate the interest of ANZ Grindlays, and explore possibilities with IDLC, IFIC, Islami Bank, and Standard Charter Bank.

Output Targets for SICIS

The quantitative goals originally set for this bank-oriented program should be revised to accommodate reduced expectations. The target number of applications by private banks to A.I.D./Washington (i.e., two) can be kept, but the level of participation should be reduced to $2 million in loans, and the target number of loans should probably be reduced to 20. Also, the Mission should not expect that information about the borrowers (e.g., first-time borrowers) will be readily available from PIAG/MOI data or Bangladesh Bank statistics, as some of the project logframe's verifiable indicators suggest.

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[9] BASIC was a subsidiary of BCCI created to lend to small and cottage industry. The Bangladesh government was a minority shareholder until BCCI's bankruptcy. BASIC is now owned by the Bangladesh government.

Credit Gap Problem

SICIS will not address small industry's credit gap problem. This will require a new approach. Grameen Bank has responded negatively to invitations to participate. BRAC's interest is unknown, but it was recently refused a commercial bank license by Bangladesh Bank. Unless NGOs such as BRAC or the Micro Industries Development Assistance Society (MIDAS) are willing and eligible to participate, the SICIS program will not reach small businesses seeking less than $50,000 in capital. The MIDAS "MIDI" program is a good model for credit extension to SMEs, but it does not have enough branches or private sector capital to qualify for the MSEDP's loan guarantee program.

Government Guarantee Programs

The Mission should try to build upon BDG's and Bangladesh Bank's receptivity to the concept of guarantee programs by offering technical assistance in their design and operation. BB's own loan guarantee program (LPG) suffers from not having incorporated some of the better features of the USAID program. A program is needed to help the government design and operate guarantee schemes properly and prudently.

Assistance may also be needed by potential bond issuers such as Grameen Bank and BRAC. These institutions need to learn how to plan, time, and price issues; set up and manage sinking funds; and manage the large microcredit programs that the bonds will finance. A successful flotation and microcredit program will contribute significantly to the Mission's strategic goals and objectives.

LESSONS LEARNED

The financial sector in Bangladesh is not sufficiently developed or equipped to respond on a significant scale to programs like SICIS.

Credit programs cannot be implemented in Bangladesh without significant technical assistance for participating banks. The Mission's experience with the effort needed to launch the fertilizer credit scheme indicates that banks need training and even convincing about the feasibility of new forms of lending.

The SICIS program tried to combine the goals of assisting industrial lending and improving SME access to commercial credit. These goals are dissimilar and SICIS could not accommodate both, even if more private banks had applied.

Private sector commercial banks in Bangladesh are not yet competing to lend to the SME end of the market. They are concentrating on larger customers. Foreign private banks felt ill-equipped to respond to credit needs in the credit-gap range ($1,500 to $6,000) identified by OEE/Bangladesh, and suspected such lending would not be profitable. Another design will have to be considered, at which point the SME needs for risk capital should be considered along with their need for commercial credit.

Although the SICIS program was never implemented, USAID support for the guarantee concept did have an important demonstrative effect that will contribute to the Mission's strategic objectives for Bangladesh.

4. International Executive Service Corps (IESC)

BACKGROUND

The International Executive Service Corps (IESC), as part of the advisory services component of the Industrial Promotion Project (IPP), is responsible for achieving Output 2, "increased business use of improved technology and management practices."

IESC is a nonprofit agency created in 1965 and based in the United States. Its mission is to promote technology transfer to the private sector in developing countries by sending volunteer (and usually retired) U.S. executives on technical assistance assignments to private sector organizations in those countries. The volunteer executives (VE) agree to work without salary; the program pays all travel and living expenses and encourages the volunteer's spouse to accompany the VE. Assignments are typically less than 6 months in duration. Since 1965 IESC has responded to more than 10,000 requests for technical assistance in more than 80 developing countries.

IPP provided Bangladesh an opportunity to have IESC open an office and hire a country director. The country director receives, reviews, and formats requests for technical assistance. He then presents the request to the Mission for approval before sending it to IESC headquarters in Stamford, Connecticut. IESC headquarters also reviews the request and accepts those for which it believes it can recruit a suitable volunteer. Every VE is interviewed and briefed before going to the country to undertake a specific assignment. On arrival the VE is met by the country director, who assists the VE in meeting the client, making living arrangements, starting work, completing reports, and in leaving the country at the end of the assignment.

Implementation History

A 5-year Cooperative Agreement, with $950,000 in funding, was signed between USAID and IESC in August 1989. The first country director was hired in 1990, but unfortunately passed away. The IESC then contracted with retired Ambassador C. Manzur Murshed to serve as country director. Start-up efforts were further complicated and delayed by domestic civil unrest, a major cyclone and the Gulf War (during which time a U.S. Department of State ban on travel to Bangladesh was in effect). In 1992 IESC/Dhaka began its first full year of operation. In 1994 the CA was extended with no additional funding until December 1995. The resources granted to IESC under the CA are given in the following table, along with best estimates of resources (time and money) expended as of December 1994.[10]

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[10]Source: Cooperative Agreement with IESC; Action Memorandum on Approval of Supplement to the Project Paper and Amendment to the Project Authorization for IPP (388-0076), dated July 21, 1994, from Mr. Peter Amato. Amount of resources expended as of December 1994 is based on estimates by IESC staff in Stamford, Connecticut, and in Dhaka.

Budgeted Inputs	*Budgeted Resources*	*Expended Resources*	*Percentage Expended*
Time (calendar months)	76	64	84
Money ($ millions)	0.95	0.60	63

IESC ACCOMPLISHMENTS

IESC is expected to achieve a set of outputs described in the IPP logframe. These target outputs are summarized in the following table along with the evaluators' estimates of IESC program achievements as of December 31, 1994.

Target	*Achievement*	*Percentage of Target*
EOPS: An office of IESC providing an average of 15 consultancies per year involving U.S.-based, private industrial advice	An IESC office averaging 10 consultancies per year involving a variety of U.S.-based industrial, commercial, and management advice	80
Output: IESC registered with BDG and fully operational	IESC registered with BDG and "fully" operational in offices of ORIOXI	100
Inputs: 40 VEs placed in SME firms for improved management, marketing, and technology	34 VEs fielded, 32 assignments completed, 3 under way, 8 more scheduled for 1995. Two ABLE jobs also completed. Mostly medium firms served, some large, few small.	87

Assignments Fielded

When IESC headquarters accepts a request for technical assistance, it is called an "acceptance." When an executive volunteer begins the assignment in country, it is called a "fielding".[11] In Bangladesh, IESC has responded to 49 requests for volunteers since its inception in 1990. Thirty-four VEs had been fielded by the end of 1994. As of October 31, 1994, IESC had provided an estimated 1,960 person-days of technical assistance to private sector enterprises in Bangladesh. IESC has also carried out two ABLE market research studies in the United States; these were sent to Bangladesh as a report (see Table 4-1).

Organizational Achievements

With the 1-year extension, the IESC program is making satisfactory progress toward achieving the targets set in the IPP logframe and the Cooperative Agreement. The IESC is established and registered as an NGO with the government. IESC/Dhaka rents office space from the ORIOXI company in the Metropolitan Chamber Building in Motijheel, Dhaka. The program is currently fielding about 10 volunteers per year.

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[11] An acceptance could fail to result in a VE being "fielded" for several reasons, the most frequent of which include the following: (1) no suitable VE is found or is available for the period the client requests, (2) the client does not agree to the VE candidate(s) proposed, or (3) the client cancels the request.

Table 4-1. Acceptances and VEs Fielded by IESC in Bangladesh as of December 1994

Year	Acceptances	Volunteers Fielded	Assignments Not Filled	ABLE Studies
1990	4	1	2	0
1991	8	3	3	1
1992	11	10	1	0
1993	12	9	3	1
1994	14	11	1	0
Total	49	34	10	2

Note: Acceptances in one year may not result in fielding a VE until the following year. The 1994 acceptance figure of 49 includes 3 assignments planned for 1995.
Source: IESC/Bangladesh country director's files.

Comparisons with Other IESC Programs

The IESC program in Nepal fielded 14 assignments in 1994. The Pakistan program fielded only 8 assignments in 1993, its last year. The programs in India and Sri Lanka, which have somewhat more funding, fielded 35 and 23 VEs, respectively, in recent years. The Canadian volunteer program CESO, operating in Bangladesh through the Micro Industries Development Assistance Society (MIDAS), has fielded 27 volunteers over the past 3 years, a rate of about 9 per year.

IESC headquarters generally considers 80 percent to be a good ratio of VEs fielded to company requests accepted. Since 1991, the Bangladesh program has fielded 30 VEs in response to 37 acceptances, a ratio of 81 percent. Even including the problem years 1990 and 1991, the program failed to fill only 9 of 35 accepted requests, a successful fill-rate of 74 percent. Both the annual number of assignments and the ratio of fielding to acceptances in Bangladesh are good.

These results indicate good communication between IESC's country director and the home office, good home office support, and effective matching. The country director has worked with Bangladesh clients to ensure that the skills of proposed VEs match each applicant's needs.

Client Satisfaction

In the judgment of the firms assisted and of the VEs themselves, the IESC program has been very successful in matching suitable volunteers to firms' needs. Most firms report a satisfactory and productive experience (see Appendix K). The program has received several requests for repeat assignments, and 3 of its 25 VEs have returned to Bangladesh for second assignments, 2 with the same client.[12]

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[12]The country director has noted the frequency of repeat requests from firms that have already had a successful VE assignment. He would be interested in setting a limit of one assignment per year and no more than three assignments in 4 years. However, this is something he believes he and the Mission can handle by individual case.

In four cases suitable candidates were not found, or could not arrive as scheduled, leaving three potential clients disappointed in the program. Two other clients were disappointed in the VEs and the assignments ended prematurely. Some local firms mentioned having to review IESC candidates carefully because several candidates were unsuited to their requests (e.g., marketing experts were proposed when production management expertise was requested).

IMPACT OF IESC ON THE BANGLADESH ECONOMY

Impact on Productivity

IESC volunteers have been effective at enhancing employment, productivity, and profit for Bangladeshi enterprises. The overwhelming majority of clients reported improvements in productivity as one of the benefits achieved by the IESC volunteer's visit (see Appendix K). These reports indicate that firm selection and matching have been highly successful in the eyes of clients. Neither firms nor VEs were regularly asked to estimate quantitatively the impact on a firm's productivity, but in a few cases this information was given voluntarily on IESC reports.

The evaluators undertook to interview and develop case studies for a sample of 11 clients (12 VE assignments), roughly one-third of the assignments since 1991. The case studies appear in Appendix K. A summary of the results is given in Table 4-2. Results for these 12 assignments were mixed, but successes predominate. Most of the client firms that managed to successfully implement VE recommendations report cost savings, increased sales, productivity, profits, and employment. A simple aggregation of the reports indicates that the successful firms increased (or preserved) employment by more than 1,200 jobs, 725 for women, as a result of assistance from IESC volunteers. Most of the jobs were in garment and footwear industries. Kumudini Welfare Trust was able to add 4000 more village women to its handicraft income program, partly as a result of financial management advice for an IESC volunteer. (More information on these cases can be found in Appendix K.) Using low average-wage assumptions for Bangladesh, the evaluation team estimates that total value added to the Bangladesh economy by enterprises implementing IESC/VE recommendations is on the order of $2.7 million annually.

Macroeconomic Impact

The $2.7 million of value added is equivalent to additional income to workers as well as owners; however, as this new income is spent and respent, a "multiplier effect" occurs, leading to an even larger ultimate impact on the Bangladesh economy. Although an accurate estimate of the "macro-multiplier" for Bangladesh was outside the scope of this evaluation, few experts would argue that the multiplier for Bangladesh is anything less than 2.5. As each additional taka of new income is spent and respent in Bangladesh (allowing for reductions resulting from savings and spending on imports), it eventually leads to total generated spending of Tk 2.5. This means that the additional $2.7 million paid to the workers and owners of the enterprises assisted by IESC has an impact equivalent to $6.9 million as that income is respent and ripples through the entire economy. That level of spending represents an impact 11 times larger than the USAID funds spent to date on the IESC component.

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Table 4-2. Estimated Economic Impact of Selected IPP/IESC Assignments in Bangladesh, 1991–1995

Name of Client Firm	Estimated Direct Economic Impact ($000/year)[a]	Estimated Economic Impact including Multiplier Effect ($000/year[b]	Comment
IESC without PIAG			
Al Baraka Bank	0	0	Recommendations not implemented
Apex Footwear Ltd. 1992–1993	880	2,200	Saved 300 jobs (280 for women)
Burlingtons Ltd.	500	1,250	30 new jobs (270 for women)
ICDDRB 1	0	0	Recommendations not implemented
ICDDRB 2	32	80	Reduction in permanent staff; increase in contract staff
Independent University (IUB)	13	33	1 new job
Kumudini Welfare Trust	585	1,463	500 new jobs and help to 4000 poor village women
North South University	15	38	1 new job
Rahman Chemicals	120	300	75 new jobs
Renata	554	1,385	80 new jobs
Uttara Bank	0	0	Recommendations not implemented
Uttaran Garment	44	110	Employs 720 women
Total value added (factor income generated)	2,743	6,858	1257 jobs new or saved (725 for women)
IESC with PIAG			
Expected annual value added from Apex's new $3 million plant expansion to begin in 1995.[c]	2,620	6,550	400 new jobs at new plant (360 for women) as a result of lowering of tariffs on imported leather
Total value added including Apex Footwear's New Plant in 1995	5,363	13,408	Total added income generated per year, including multiplier effect

Note: ICDDRB = International Center for Diarrhea Disease Research (Bangladesh).

[a]Estimated first-round impact, value added, or additional income received by a Bangladesh factor of production, principally labor and capital (including management), based on improvements in employment, output, sales, or productivity as reported by client firms and indicated in IESC reports on VE assignments.

[b]Result of applying a macro-multiplier of 2.5 to estimates of first-round income in column to left.

[c]Apex's expansion was not the direct result of an IESC assignment. However, the investment followed a successful IESC assignment 2 years earlier. Apex made the investment only after implementation of a reduction in tariffs on imported leather—a reform advocated by the PIAG component of the IPP.

Source: IESC/Bangladesh assignment files and interviews conducted by evaluation team. See case studies in Appendix K.

This scale of success is the result of good selection of enterprises, good matching of VEs to enterprises, and the high rate of gains that can be expected from appropriate technology transfer in Bangladesh. Not every assignment has resulted in productivity gains. In some cases, the VEs' recommendations (1) were not implemented for lack of financing or other reasons (2) represented a technology currently beyond the institutional capacity of the enterprise to implement. In one case, however, all the elements for success were in place (see Exhibit 4-1).

Exhibit 4-1. Technical Assistance and Tariff Reform: Apex Footwear

The case of Apex Footwear, Ltd., merits special mention. In 1994, 2 years after its first assistance from an IESC volunteer executive, Apex invested $3.0 million to expand its leather footwear assembly line. At the time, the investment decision was based mainly on a relaxation of duties on imported leather (a tariff reform that IPP's Policy Implementation and Analysis Group (PIAG) component had advocated). However, Apex's ability to invest and arrange financing resulted in part from the successful turnaround at its first footwear plant achieved 2 years earlier with assistance from an IESC volunteer. As the new plant is put into operation, employment will expand by 400 persons, 90 percent of whom will be women. In addition to the benefits from the investment expenditure, the first-round economic impact of this plant will add $2.6 million of new income annually to the Bangladeshi economy. The multiplier effect will result in economy-wide increases in total spending on the order of $6.5 million. This achievement illustrates the synergistic economic impact of the IPP's policy reform achievements combined with focused technical assistance.

Total value added by the new Apex plant, along with the earlier plant and the other enterprises assisted by IESC, will increase annual value added (i.e., income to workers and owners) in the assisted plants by $5.4 million. This amount, as it is respent, will eventually increase total income in the economy by $13.4 million by virtue of the multiplier effect.

OPERATIONAL AND POLICY ISSUES

Selecting IESC Clients

The current selection process is highly personal and relies mainly on decisions by the country director, who screens each application and always submits it to the Mission for approval. IESC has an advisory board of distinguished private sector business leaders, but the board has not met more often than annually. Some of the board members would like to play a larger role in selecting applicants for IESC assignments. Others are too busy to become more involved.

The more than 30 firms selected to date represent a wide variety of economic activities and organizational types. Included are service and manufacturing enterprises of varying sizes, start-up enterprises, and some long-established enterprises interested in diversifying. The selection includes profit and nonprofit institutions as well as exporters and domestic marketers. Some firms selected are owned by prominent businessmen known to be good borrowers, and at least one client is a well-known defaulter.

To date, the selection of applicants includes almost no small firms, few run by women, and very few located outside Dhaka. These are logistically driven constraints rather than selection weaknesses. The country director had refrained from advertising the program out of concern that his small office would be deluged with thousands of applications. Given that the program can only accommodate between 10 and 15 assignments per year, the decision to eschew advertising is appropriate.

In the evaluators' opinion, the country director has done a satisfactory job of selecting firms. At this point almost all remaining resources under the current Cooperative Agreement are already committed to clients expecting VEs in 1995. In the future, however, it is recommended that the selection process be opened up for suggestions from more sources. The evaluators agree with the country director's assessment that it would be cumbersome to make the selection process dependent on board approval, but recommend that the board be canvassed for suggestions.

The country director and the board should also request suggestions (if not nominees) from the various chambers and reliable NGOs. These bodies should be told that it is essential that they screen candidates and restrict their nominations because of IESC's limited resources.

Determining Scale of Enterprises Served

In general, most IESC assignments in Bangladesh have been with clients that would be considered medium-scale enterprises by Bangladesh standards. A few have been for start-up operations of otherwise established, well-to-do business families. Although the program has directly served relatively few enterprises that could be considered small, it has assisted NGOs such as the woman-owned Kumudini Welfare Trust and the Bangladesh Rural Assistance Committee (BRAC), both of which have their own programs with small and microenterprises. Considerable assistance has gone to two private educational institutions that were start-up enterprises.

It will be difficult and possibly less productive for IESC to aim at matching the skills of retired U.S. executives to the needs of smaller enterprises in Bangladesh. In addition to the logistical problems of language, transport, and accommodations, the small-scale enterprises will not be financially able to pay for lodging and meals for each VE and spouse, as required by the program. Moreover, it should be recognized that the technical and management skills that most retired U.S. executives can offer might not be appropriate for small or even medium-scale industry in Bangladesh, even though they would be appropriate for larger businesses or export-oriented enterprises. IESC/Dhaka takes into account the absorptive capacity of the client firm when considering how to match its needs with suitable IESC volunteers.

Reaching Smaller Enterprises

IESC currently reaches a few smaller firms indirectly through assisting intermediary NGOs. This is a good idea that might be expandable. It makes sense to determine whether these same NGOs could arrange direct technical assistance. The NGOs could (1) bundle or batch small businesses; (2) improve the businesses' absorptive capacity before and after each VE visit; and (3) interact with and support the VE directly, spreading the cost over several users. IESC headquarters staff report that they have experimented with batching arrangements in other countries, but find the technique unsatisfactory unless local support intermediaries are quite skilled.

The IPP design anticipated this problem and suggested that IESC use umbrella organizations, such as NGOs or the Business Advisory Service Center (BASC), as intermediaries through which to reach more small businesses. The project design calls for BASC to receive $107,000 of linked assistance from IESC. Most of this is probably needed to improve BASC's own skills, but some of IESC's remaining balance for 1995 ($139,800) could be targeted to reach small businesses through NGOs, including BASC. BASC is only now developing its clientele, but it should soon have the capability to bundle several smaller firms into an assignment that an IESC volunteer could address collectively or even in succession, spending a brief amount of time with each. The IESC volunteer would rely on BASC for translation, transport, support, and follow-up to the smaller firms, as well as for food and lodging. BASC would collect the contributions of the various small firms to cover lodging and other costs and would arrange for joint training and technology transfer sessions at its meeting facilities when appropriate.

Serving Medium and Large Businesses

The Mission and the IESC program may be criticized for providing VE services to firms considered somewhat large by Bangladesh standards. Such criticism should not prevent IESC from taking on assignments such as the one undertaken for Apex Footwear (see Exhibit 4-1). Although Apex is owned by one of the more established business families in Bangladesh, the VE's assignment was with a start-up enterprise of small to medium scale by government standards. The assignment was very successful. Currently about 320 women are employed at the enterprise, including some in middle management. The VE and Apex management designed a productivity incentive system that gives women workers a chance to excel and advance.

Providing Information About Each Client's Business

Despite the high level of satisfaction reported by both VEs and clients, a few VEs interviewed believed they would have been better prepared if they had known more about the business and industry of the prospective client before leaving the United States. All VEs reported receiving brief descriptions of the expected scope of work from their IESC contact, apparently taken from Section III of the greement signed by each applicant. Examples of other information about the client company VEs would like to have seen include

- Company financial statements;
- Age of the company;
- Ownership and management structure;
- Organization chart, including names;
- Description of products, volume of sales, and market niche or share;
- Number of employees (total, including managers and production workers);
- Brand, make, and year of key pieces of equipment used in manufacturing; and
- Availability of computers for VE use (type or model).

Much of this information is asked of the applicant on the agreement form (in sections other than Section III). If this information is provided, IESC headquarters should be supplying it to prospective VEs. In addition, applicants could be more descriptive. Finally, the country director helps applicants complete forms; if some applicants, such as small enterprises, need more help, perhaps outside consulting services such as BASC provides can be used.

Providing Information on Living Conditions

The country director sends each prospective VE a friendly but frank letter explaining the limitations of living conditions in Bangladesh. The U.S. Embassy guide to newcomers is also given to new VEs before they begin assignments in Bangladesh. In only three cases to date have VEs complained about the lack of hospitable or sanitary living conditions, and two of those complaints were from VEs who felt that IESC should provide five-star hotel accommodations for all VEs. The country director has also asked IESC headquarters to ensure that VEs sent to Bangladesh be of hearty stock and possess almost missionary zeal. The country director has located suitable lodging in several guest houses in the Dhaka suburbs. Most VEs working in the Dhaka metropolitan area find these lodging arrangements satisfactory. For those assignments that are too far outside Dhaka, the country director takes pains to ensure that the client enterprise has lodging that will provide the VE with acceptable living conditions. It will be even more difficult for the country director to ensure this standard if assignments are to be made outside the major urban areas of Dhaka and Chittagong. VEs report that the country director's letter is quite helpful, and that life in Dhaka for VEs and spouses is manageable. The most frequent complaints were about the problem of transport, particularly in the evenings, and difficulty arranging activities and transport for the spouse.

Ensuring Quality of Home Office Support

Although support from IESC headquarters has been generally good, the country director experienced some problems in 1994. These problems may have resulted from turnover in the post of the South Asia coordinator in Stamford. The country director has experienced longer-than-usual delays in responses to his requests for financial information on the program and sometimes for reaction to requests for VE candidates. The four VE cancellations in 1993 and 1994 also came with so little notice that it was not possible to recruit alternates. If Stamford had known (or suspected) somewhat earlier the possibility of a cancellation, alternates might have been arranged in some cases in time to fit the client's needs.

EVALUATION AND REPORTING

IESC has a standard set of forms and procedures for evaluating the assignment after it is completed but before the VE leaves. Between 6 and 9 months later a follow-up evaluation form is sent to approximately one-third of the firms assisted.

Every project file examined had a Post-Project Review (PPR) form. Although IESC provides USAID with a copy, this form does not serve the Mission's needs for information about quantitative impact on productivity, profit, investment, exports, or employment, including employment of women. The client firm and the VE are instructed simply to check "yes" or "no" when asked whether the project has contributed to improving variables such as sales, profits, productivity, and employment.

For many enterprises, a simple qualitative judgment may be all that can be expected. However, other firms will be willing and capable of providing more information. Also, some impacts will only be apparent in the 6 to 12 months after the VE leaves, and IESC samples only about one-third of assignments for follow-up information.

Evaluation of Impact

The country director believes he can use the case studies developed in this evaluation as a format for reporting to USAID on the impact of VE assignments in terms of financial information and employment figures provided by the clients. The country director's office is not well equipped, however, to make estimates of values added and macroeconomic multiplier impact. This is another task that BASC might perform for IESC, for USAID, and for itself. The task will put BASC in touch with firms that could be interested in follow-up services.

IESC Evaluation Forms

IESC headquarters staff report that they are designing new evaluation forms that can be tailored to the terms of a specific Cooperative Agreement in a specific country. Their system uses forms generated by computer using Lotus Notes software. They hope that computerized flexibility will allow the country director in each country to design forms appropriate to that country, the source of funding, and the grant agreement. The new system is scheduled for testing, but not for worldwide implementation, in 1995.

CONCLUSIONS

The IESC program is working well in Bangladesh as a result of good administration and because policy reform is opening new opportunities to private sector firms. Now and in the near future, the Mission can expect IESC technical assistance to make positive contributions to its strategic objectives in sustainable development and job creation.

RECOMMENDATIONS

The evaluation team recommends that the IESC component be continued and expanded. Within the calendar time and with the resources remaining under the existing Cooperative Agreement with IESC, no structural changes are recommended. Operational recommendations include the following:

- Expand the search for potential IESC volunteer executives by seeking suggestions from the advisory board, chambers of commerce and industry (CCI), NGOs working with small and medium-sized enterprises, and private sector firms trying to develop local sources of supply for otherwise imported goods.
- Experiment with the design of assignments in order to reach smaller businesses; for example,
  - — Working with its larger clients on a program to develop local SMEs into manufacturers of inputs that the larger clients will purchase;
  - — Working through NGOs that assist small and woman-owned enterprises, such as Kumudini Welfare Trust, which IESC has already assisted;
  - — Using CCIs or NGOs such as BASC or MIDAS to organize smaller enterprises in groups or batches that can apply collectively for IESC assistance.
- Provide VEs with more information on applicant firms,
- Improve IESC evaluations to include more information on economic impact, in particular changes in investment, employment, and earnings that are partly due to VE assistance. Until the new IESC evaluation system is available in Bangladesh,
  - — The country director should use the case study format and examples developed in this evaluation to solicit, maintain, and present information to the Mission on the investment or productivity changes that IESC clients report and attribute to VE assignments, including (1) changes in sales, costs savings, output, productivity, and employment, particularly employment of women; and (2) any new investments made partly as a result of VE recommendations.
  - — All IESC assignments should be evaluated. The evaluation should include information collected from follow-up visits to the firm 9 to 12 months after the assignment is completed. It should concentrate on (1) developing the quantitative information needed for the Mission's evaluation purposes and (2) developing information about the ingredients for a successful consulting assignment. BASC is a likely candidate to carry out this evaluation.
  - — Any ideas, particularly from the Mission, on developing evaluation forms should be sent to Ms. Katharine McGrath, Manager of IESC Evaluations, at IESC headquarters; the telephone number is (203) 967-6065.
- Begin the process of recruiting a qualified assistant country director to work with the current country director if and when the program is expanded, and undertake a review of compensation arrangements at that time.

5. Business Advisory Services Center (BASC)

BACKGROUND

The Business Advisory Services Center (BASC) is a nonbilateral component of the Industrial Promotion Project (IPP). Implemented through a Cooperative Agreement with USAID, BASC is an NGO launched in August 1991 to provide consulting services, managerial and other training, and technical and market information to interested Bangladeshi businesses. From August 1991 until October 1993, when it was established as a separate legal entity, BASC operated under the stewardship of the Micro Industries Development Assistance Society (MIDAS). In September 1994, USAID and BASC signed a Cooperative Agreement for a 2-year period. BASC is currently the largest component of IPP in budget terms, accounting for $2.39 million of the Mission's $5.56 million contribution to IPP, although only $1.70 million will have been obligated to BASC by the end of FY 1995. This evaluation is the first outside assessment of BASC.[13]

The USAID Project Review Committee (PRC) revised the original IPP logical framework from the Project Paper of 1989 in March 1994. The PRC restated the project goal, added a subgoal, and revised the project purpose. The newly added project subgoal is "to increase local and foreign investment in the Bangladesh private sector." The relevant purpose in the old logframe, "to establish a locally operated source of management and technical assistance to business," was revised to read "to reduce policy, technological, and credit constraints to private sector investment."

BASC's role with the new logframe structure is to contribute to removing technological constraints by creating "increased business use of improved technology and management practices." USAID's strategy for BASC, as well as for the International Executive Service Corps (IESC), is to upgrade Bangladesh's business service capabilities and the private sector's awareness of such services, so that as the economy expands and demand for technology and management skills increases, businesses (including SMEs) will not be as severely constrained by shortages of skills or lack of familiarity with business service suppliers.

BASC ACCOMPLISHMENTS

Project Budget

The following table indicates expenditure of the time and funds budgeted for the BASC component through June, 1994.[14]

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[13]In June 1994, USAID contracted the accounting firm M.A. Quader Kabir & Co. to assess (1) BASC's financial, accounting, and management capabilities, and (2) the adequacy of BASC's procurement, travel, and personnel policies. The assessment reported positively on BASC's capabilities.

[14]Source: Action Memorandum on Approval of Supplement to the Project Paper and Amendment to the Project Authorization for IPP, dated July 21, 1994, from Mr. Peter Amato.

Budgeted inputs	*Budgeted Resources*	*Expended Resources*	*Percentage Expended*
Time (calendar months)	62	38	61
Money ($ million)	2.39	0.56	23

Accomplishment of Logframe Targets

The logframe targets set in 1989 called for BASC to reach 150 businesses with direct technical assistance and to conduct at least 40 training events. BASC has already conducted 38 training events and reached an estimated 193 businesses. Some 162 private entities have sent participants to training courses; 11 firms have contracted with BASC for consulting work; and 200 firms were exhibitors at a catalog exhibition. Table 5-1 presents the overall achievements of BASC as compared to the revised logframe targets.

Table 5-1. BASC Achievement of Logframe Targets

Target	Achievement	Percentage of Target
EOPS[a]: A business advisory services center (1) operating on a for-fee basis under private sector management and (2) leading 150 firms to make management or operating improvements, or both, resulting in increased productivity and employment	BASC is operating a business advisory services center. It is charging fees for some services. It has reached 193 firms in 3 years. It is not assessing impact.	Not estimated
Output 1: 10 percent annual increase in number of businesses requesting technical assistance and services	Not monitored by BASC	N.A.
Output 2: 150 businesses make major management and technological improvements as a result of project assistance	Service provided to 193 private entities, training to 162, and consulting to 11; 20 firms were trade show exhibitors	Not estimated
Output 3: Private sector owners and managers report decrease in government intervention, rent-seeking, and customs corruption	Not monitored by BASC	N.A.
Output 4: BASC is registered with BDG and is fully operational	BASC incorporated as a nonprofit private limited company	100
Input 1: 150 technical assistance actions carried out for improved firm management, marketing, and technology	11 consultancies completed	7
Input 2: 40 training workshops and seminars carried out	38 training workshops and seminars carried out	95

N.A. = not available.
[a]End-of-project status mentioned in Cooperative Agreement, Attachment 2, Section H, p. 16.
Source: Action Memorandum on Approval of Supplement to the Project Paper and Amendment to the Project Authorization for IPP, dated July 21, 1994, from Mr. Peter Amato. Achievements reflect the evaluator's estimates based on information from BASC as of November 1994.

BASC operates an office, reference room, and training facility located in a converted residence in the Dhanmondi section of Dhaka. The program has a staff of 11, including its director. BASC can be described as acting as a broker, or intermediary, for clients in search of technical or management assistance. For a fee, BASC offers to locate or organize reputable providers of technical services needed by a client. Although its personnel occasionally provide some technical assistance or training directly, BASC typically contracts with outside professionals to provide the assistance clients seek.

Between August 1991 and October 1994 BASC arranged for the provision of technical assistance or training to 274 organizations, including 193 private businesses (see Table 5-2). In the process BASC completed

- Three subsector studies on animal feed production, plastic packaging, and electromechanical toys;
- Eight consulting assignments, including (1) feasibility studies for a cotton textile mill, a hospital and diagnostic clinic, and a medical textile project and (2) a study of the homeopathic medicine market for an SME;
- Thirty-eight training events, including seminars, workshops, and an exhibition. An estimated 787 persons (151 women) from 243 organizations, including 162 private companies, have received technical and management training through BASC programs.

BASC's seminars have been attended by SMEs as well as prominent private and public sector leaders in Bangladesh. BASC's one catalog exhibition in 1993 had 20 exhibitors and attracted almost 2000 visitors. BASC also operates a business reference room with 588 publications for interested visitors. Forty-two of the publications are in Bangla, the rest in English.

Impact of BASC on Bangladesh Businesses

A large part of BASC's training and technical assistance occurred in its 1993–1994 fiscal year. BASC clients contacted by the evaluation team declined to estimate a quantitative impact on their enterprises from services, in some cases because service had been received only recently. Until this evaluation BASC had not made an organized effort to follow up and assess the impact of its services on employment, productivity, and profits in the assisted enterprises. Table 5-2 presents the information BASC provided to evaluators on the extent and impact of their services.

BASC has provided consulting services directly to only 11 firms. No case study information for these firms or services was provided to the evaluators, but BASC reports that four of the clients are exploring the feasibility of establishing enterprises that could someday employ 1,675 people, including an estimated 500 women. Currently, however, these enterprises have made no investment other than for studies or land.

Of the 162 private firms that have sent staff to BASC for training, 3 were contacted about the potential impact on their performance:

- A carbon rod producer who sent production management staff to BASC for training in productivity and quality control;
- A dairy farm owner who attended a BASC course in financial management; and
- An industrial equipment fabricator whose owner attended a BASC course in financial management.

All three said they valued the training received and planned to attend more training in the future. They considered the training of general value (improved quality control, bookkeeping) to their businesses, but could not yet identify any operational improvements as a result of BASC training. They anticipated future improvements. No one at BASC was aware of any change in investment or employment at client enterprises attributable to BASC's training.

Table 5-2. Impact of BASC Services on Businesses in Bangladesh

Impact Indicator	1991–1992	1992–1993	1993–1994	Total
Human Resources Development and Training				
Persons trained*	143	191	453	787
Men trained	123	181	332	636
Women trained	20	10	121	151
Business start-ups attributable to training	—	—	1	1
Businesses helped through participants trained	—	—	24	24
Increase in sales, decrease in costs and increase in savings	—	—	3	3
Enterprise Development and Consultancy				
Assignments	—	1	10	11
Business start-ups attributable to consultancy	—	—	4	4
Potential employees in new businesses	—	—	—	1675
Potential female employees in new businesses	—	—	—	500
Investment made attributable to consultancy	—	—	—	studies and preliminary expenses
Technology and Business Information				
New business start-up through linkage to source of local technology	1	—	—	1
Exhibitors in catalog exhibition	—	20	—	20
Visitors	—	1990	—	1990
Inquiries received by exhibitors	—	284	—	284
New orders or transactions	—	3	—	3
Inquiries received by Bank	—	17	—	17
Bank-related transactions	—	2	—	2

*From 243 organizations, including 163 private companies.
Source: BASC training participant lists, quarterly progress reports, and annual and half-yearly business plans.

BASC also reports assisting one new business start-up, a bread- and biscuit-making plant that contacted its BASC's Technology and Business Information service for help in linking up with a local source of technology.

BASC believes that the 20 exhibitors at its 1993 catalog exhibition benefited from the promotion. Exhibitors reported 284 inquiries. Three exhibitors reported new orders, but the estimated value of these orders was not known to BASC.

Financial Results

BASC charges fees for its services. In 1993–1994 BASC earned about Tk 765,000 ($19,000) in income, 49 percent from consulting work and 51 percent from training services (see Table 5-3). This was more than double the income earned in the two previous years combined, but BASC's total annual operating costs for FY 1993–1994 were Tk 10.6 million ($265,000)—almost 14 times larger than its income. Even after excluding major capital cost items, BASC income as a percent of its operating expenses was 7.6 percent in 1991–1992, 2.1 percent in 1992–1993, and 11.3 percent in 1993–1994. BASC's annual operating costs include the fixed cost of its own staff and overhead and the cost of contracting for outside professional services.

Table 5-3. BASC Summary Income Statement, 1991–1994

Year	1991–1992	1992–1993	1993–1994	Total 1991–1994
Activities				
Consultancies paid for	0	1	10	11
Training courses	8	9	21	38
Persons trained	143	191	453	787
Income (Tk)				
Consultancies	0	0	394,939	394,939
Training Courses	227,250	93,750	370,600	691,600
Costs (Tk)				
Salaries, professional	998,664	2,432,770	2,041,813	5,473,247
Salaries, support	333,287	394,300	418,520	1,146,107
Operating expenses	1,665,865	1,628,861	4,336,508	7,631,234
Capital assets	2,851,412	160,681	3,886,952	6,899,045
Total costs	5,849,228	4,616,612	10,683,793	21,149,633
Program deficit	5,621,978	4,522,862	9,918,254	20,063,094
Operating deficit	2,770,566	4,362,181	6,031,302	13,164,049
Staff				
Professional*	6	7	11	—
Support	11	11	11	—

*Part-time employees deputed from MIDAS 1991–1993.
Source : BASC Accounts Office.

BASC is not currently financially self-sustaining, and its prospects for becoming so are not good. Given its current size and costs, BASC will have to continue to double its income each year for the next 4 years to reach financial sustainability.

So far, the apparent demand for BASC's services is not strong enough to support an organization of 11 full-time professionals. BASC must either (1) expand its income by an order of magnitude (for example, finding 14 new paying clients for each current client) or (2) transform itself into a smaller, leaner operation—or both.

MARKET FOR BUSINESS ADVISORY SERVICES

The broad market for BASC's services has been defined as any Bangladesh enterprise but mainly as SMEs in the Bangladesh private sector. No market study was conducted to identify commercial spending habits of SMEs for technical assistance, and BASC's comparative advantage or special niche in this market has never been explained well.

In 1989, during preparation of the IPP Project Paper, justification for the BASC component was based on a sample survey of 50 organizations and individuals on the need for technical services and assistance by new and existing small industries. The survey concluded that there was a definite need and that private sector consulting firms in Bangladesh were not filling that need properly. The survey indicated that the most frequent assistance needed by SMEs related to production, marketing, finance, and management. The larger firms surveyed indicated a need for specialized technical and information services, and indicated a willingness to pay for good services.[15] The survey concluded that the concept of BASC was ideal.

In 1993 BASC undertook a needs assessment of 200 enterprises in Dhaka, Chittagong, and Khulna. Its July–October quarterly report for that year highlighted the major areas of technical and managerial assistance sought by the respondents: production management, new technology sourcing, marketing, new product development, and employee training. The full survey report was not formally produced until October 1994, more than a year after the data were collected.

Market Development

BASC has mailed materials to more than 1,000 enterprises, and BASC's executives have called on most of the country's trade associations, CCIs, and financial institutions, as well as hundreds of enterprises. Despite this commendable effort, BASC's client base and sales income remain too small, and BASC appears to devote more time to analyzing and planning its offerings than to marketing its services. BASC wisely used the 1993 survey results as a planning aid to consider what activities it should offer, but has not used the list of respondents to organize a program of sales calls in Dhaka or elsewhere. Recently BASC gave one of its professionals the job of business promotion rather than a specific responsibility for developing clients and generating income.[16]

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[15]The April 1993 end-of-project evaluation of MIDAS by Development Alternatives, Inc. (DAI), recommended a study to reassess the market demand for BASC's services. The DAI team's preliminary findings indicated little enthusiasm among local firms to pay for consulting and training services. A revised market study based on expenditures rather than needs (or willingness to pay) would be advisable. The apparent increase in the number of private sector consulting and training firms operating in Dhaka and Chittagong suggests a growing demand, as do reports of popular, successful business service programs (providing training, information, and exhibitions) offered by CCIs in Dhaka and Chittagong. These programs are subsidized but charge fees; the CCIs report strong attendance.

[16]Small private sector professional groups such as law and accounting firms also tend to eschew advertising. They market by making each senior professional personally responsible for developing new clients. A professional is expected to generate more than enough income from his or her clients and practice to pay the professional's salary and a fair share of the firm's overhead costs.

Competition from Other Donor Initiatives

BASC is not the only supplier of training and technical assistance. The number of private consulting firms in Dhaka is growing, and there are several other donor-supported activities offering training and advisory services to SMEs in Dhaka and Chittagong. Two such projects are the Productivity Services Wing (PSW) of the Bangladesh Employers' Association (supported by the United Nations Development Programme [UNDP] and the International Labour Organization) and the German ZDH Technical Assistance Partnership Project operating through CCIs and business associations. An upcoming Overseas Development Association (ODA) project will also support trade association activities such as training, information, and counseling.

PSW focuses on improving the productivity and viability of small enterprises. Its service package consists of industrial engineering services, financial planning and advisory services, training, technical advisory services, publications, and research and information services. PSW's funding from UNDP ends in September 1995. Currently, PSW reports that it covers about 45 percent of its operating expenses from fees. PSW makes a profit on its consulting work, breaks even on training, and subsidizes its publications.

The ZDH/TA Partnership Project is reportedly successful, especially with the Dhaka and Chittagong CCIs. The project helps chambers and associations to improve service to small enterprise members and to become stronger advocates for the small enterprise sector. With ZDH/TA's help, the Dhaka Chamber now offers training, publications, consulting services, and a business information and service center. Operating costs of training courses are fully met from participant fees.

Other organizations that provide services similar to those of BASC are the Bangladesh Management Development Center (BMDC), Small and Cottage Industries Training Institute (SCITI), MIDAS, the Independent University of Bangladesh (IUB), and the Bangladesh Institute of Bank Management (BIBM).

Using a CCI as a vehicle to offer SME assistance has certain advantages. It strengthens the CCI and allows SMEs to make business contacts as well as obtain training. A viable CCI also avoids some of the problems of start-up and sustainability.

BASC ORGANIZATIONAL ACHIEVEMENTS AND ISSUES

As with any new organization, a large part of BASC's initial efforts has been devoted to the administrative and logistical problems of start-up.

BASC operated under MIDAS from August 1991 to July 1993. A comparison of achievements with respect to targets set for that period of the Cooperative Agreement Amendment is shown in Table L-1, Appendix L. Most of the achievements are administrative and organizational and took considerably longer than expected.

In 1993, BASC was legally incorporated with its own articles of association. MIDAS took 2 years to submit legal registration documents for BASC that the Mission would accept. Early drafts included clauses that allowed MIDAS to maintain some control over BASC rather than establishing BASC as an independent entity, as called for in the IPP and the Cooperative Agreement with MIDAS.

BASC has its own 13-member board of directors. Between December 1993 and November 1994 the board met five times. The Project Paper had indicated that BASC's board should include two representatives from CCIs and two from the Bangladesh government. No such directors have been named, but this should now be considered an option of the sitting board. There is no requirement for such appointments mentioned in either the Cooperative Agreement with BASC or BASC's own articles of association.

A full-time project director (PD) joined BASC in August 1993. MIDAS' director of development acted as a part-time (50 percent) manager for BASC from 1991 to 1993. MIDAS was extremely slow in recruiting a full-time PD. More than a year passed between receipt of the first applications in 1991 and the first interviews in January 1993.

Nine of BASC's 11 professional positions are staffed. Recruiting continues for the two unfilled positions. Four of BASC's professional staff were hired before the current PD was hired.

BASC has gone through a series of planning exercises, including

- The May 1993 First 5-Year Business Plan, prepared with support from an IESC volunteer executive;
- A needs assessment carried out in August 1993; and
- A revised business plan prepared in summer 1994 and used for the new Cooperative Agreement between BASC and USAID.

The revised plan is more focused (i.e., it contains fewer activities), and its targets appear more realistic. However, the plan is still activity-oriented and does not include sales and income-generation targets.

Lessons Learned from the MIDAS Experience

General lessons learned from MIDAS are summarized in the Mission's August 1994 Office of Economic Enterprise (OEE) report.[17] The lessons most relevant to BASC are that

- Entrepreneurial training can increase business productivity for those entrepreneurs willing to help themselves;
- An active board of directors can help with marketing and planning;
- Good staff make an organization strong;
- Reputation is critical to success;
- Institution building is a long-term process; and
- Sustainability is not equivalent to vibrancy.

Two additional lessons relate specifically to (1) MIDAS's work administering BASC and (2) MIDAS's experience providing technical assistance to SMEs.

Stewardship

MIDAS managers did not work diligently to launch BASC because they (1) preferred retaining the Cooperative Agreement within MIDAS and (2) anticipated that BASC could become a competitor, both for donor-assisted SME programs and in the consulting service market. MIDAS was unable to act as a neutral incubator and did not facilitate implementation.

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[17]This section is based on information from Peter Amato, "Poverty Reduction through Private Sector Employment: Lessons Learned and Next Steps" (OEE of USAID/Dhaka, August 1994), Appendix A, pp. A-15 to A-17.

Serving SMEs

MIDAS's experience in conducting enterprise development activities indicated that certain SME services such as information, training, feasibility studies, and market research could not be provided without subsidies that adversely affected MIDAS' progress towards financial self-sufficiency. The experience was one of the premises underlying the decision that MIDAS would retire from providing these services and transfer them to BASC. BASC, it was hoped, could organize to provide these services with less need for subsidies.

ACHIEVEMENT OF BASC BUSINESS PLAN TARGETS

According to its own business plan, BASC is performing well in the area of training activities but falling short of its plan targets in other areas (see Table 5-4). Although the target for generating computerized project profiles was 50 for 1993–1994, only 7 profiles have been prepared; and although the target for creating technology database briefs was 452, BASC's database currently contains only 146 briefs. The computerized database of experts was not yet functioning in 1994. BASC has approached 19 foreign organizations about technological linkage, and 13 have replied positively, but there has not as yet been much activity (i.e., technology exchanged) or income generated by virtue of these linkages. Recently, however, at least one commercial vendor, a Chinese company with a low-cost rice milling technology, has called on BASC for help in marketing in Bangladesh.

Some of these shortfalls are not significant in terms of their impact on BASC's ability to charge for and sell its services. BASC has sold only two of its profiles (Tk 500 or $12 each) and only three of its technology briefs (Tk 100 or $2.50 each).[18] On one hand, if customer demand for computerized project profiles or technology database briefs is not strong, then shortfalls in development of these tools are not critical. On the other hand, it is difficult to see how BASC hopes to compete as an intermediary or broker without a computerized database of sources of technology and another database of SME clients—the very tools BASC needs to claim a competitive advantage in matching buyers and sellers of technology.

As part of its agreement with USAID, BASC plans to bring out a newsletter on enterprise development and poverty alleviation that will incorporate news on all IPP components and MIDAS. (Publication of MIDAS' own newsletter has been discontinued.) A newsletter may help, but BASC should be objective about how the newsletter is likely to contribute to its goals. It might be better for BASC to think in terms of much wider and more frequent circulation, such as an occasional BASC column about SMEs and technical assistance in an established periodical.

LINKAGE TO OTHER IPP COMPONENTS

BASC is in contact with other key personnel managing other IPP components and has contributed to several joint activities. BASC's executive director is a member of the Steering Committee for the Policy Implementation and Analysis Group (PIAG), and BASC has helped organize two Key Person Forums to discuss PIAG's policy papers. These forums were one-day events attended by 15 to 17 representatives from various Bangladesh government agencies, CCIs, the World Bank, large private companies, and USAID.

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[18]Profiles are studies of industrial plants or processes (such as a mini edible oil mill), approximately 15 pages in length, some with drawings. Technology briefs are computerized one-page descriptions of equipment or processes such as a mushroom steam boiler.

Table 5-4. BASC Achievement of Business Plan Targets for 1993–1994 and Revised Targets for 1994–1998

Activity	1993–1994 Target	1993–1994 Actual	1994–1995 Target	1994–1995 Revised	1995–1996 Target	1995–1996 Revised	1996–1997 Target	1997–1998 Target
Technology and business information								
Reference library titles as of February 1995	—	568	—	450	—	600	600	600
Technology database (briefs)	452	146	—	35	—	65	65	65
Project profiles	50	7	50	50	50	60	50	50
Business directories and guidebooks	—	0	—	3	—	3	3	3
Newsletters and bulletins	2	1	2	6	3	6	3	3
Exhibitions	2	1	2	3	2	3	2	2
Technology procurement	—	0	—	4	—	6	6	6
Establishment of linkages with sources of technology and information	10	13	10	6	8	10	7	5
Enterprise development and consultancy								
Subsector studies	—	3	—	7	—	6	4	4
Subsector development programs	2-3	0	5	3	5	3	5+	5+
Database of experts	40	0	20	100	20	100	40	40
Consultancy assignments	3	7	10	10	10	10	10+	10+
Training								
Short-term training courses	3	19	3	19	6	21	3	7
Long-term training courses	—	0	—	4	—	4	—	—
Curriculum development	—	0	4	4	1	3	2	1
Management textbooks and video programs	1	0	1	3	1	3	1	1
Seminars	2	0	6	3	2	3	6	2

Sources: Original targets from BASC 5-Year Business Plan, May 1993. Revised targets from Cooperative Agreement No. 388-0076-A-00-4062-00 (September 1994). Actual figures from BASC management.

IESC's country director is a member of the BASC Board of Directors, and BASC has used the services of an IESC VE for two months to assist in preparing its 5-Year Business Plan for 1993–1998. Two more VEs are scheduled to assist BASC in developing curricula for management-related training.

BASC has helped two enterprises prepare applications to IESC for VE assistance. One was for a new leather products exporting company in Dhaka; the other was a financially troubled liquid sugar manufacturing plant in northern Bangladesh.

BASC assisted efforts to introduce and promote the Small Industry Credit Insurance Scheme (SICIS), sponsoring a seminar held in October 1993 and a training program on financial analysis for bankers and entrepreneurs organized in August 1994.

BASC REPORTING AND USAID MONITORING

BASC quarterly reporting has not always been regular, and USAID monitoring has been unusually intensive for a Cooperative Agreement. Moreover, BASC has not been monitoring, assessing, and reporting on the impact of its services on assisted firms, SMEs or otherwise.

The evaluation team has developed three case studies based on preliminary information from BASC (see Appendix L). A better model for BASC would be the series of studies developed by the evaluation team from the IESC program information (see Appendix K). BASC should develop a similar case study method and reporting format for itself and for satisfying donor needs for impact evaluation.

The Mission's monitoring role in the case of BASC is a complex one. The responsibility for general and financial management of BASC rests with the BASC Board of Directors. A representative of USAID sits on the board in an oversight capacity related to the Cooperative Agreement, grant funds from which account for 90 percent of BASC's income. USAID's role is to see that the funds are used to achieve targets established in the agreement. USAID should not be involved in BASC's longer-term sustainability issues except to (1) remind the board that future grant funding from USAID is unlikely and (2) clarify that BASC has no contractual obligation to sustain the level of activity supported by the Cooperative Agreement once the agreement has expired.

CONCLUSIONS

As it now functions, BASC is not reaching enough SMEs to fulfill its targets under the Cooperative Agreement and is generating less than one-tenth the income needed to cover operating costs. BASC's costs are high in comparison not only to its earnings but to the number of clients served. By the end of FY 1994 BASC had trained about 900 individuals and helped about 200 private sector SMEs, at a total cost of about $560,000. The average cost per individual trained is $622 (Tk 25,000). BASC's average income from training is $22 (Tk 900) per person. BASC has not been monitoring impact and does not know if it is providing a service that is worth Tk 25,000 or only Tk 900 to its participants.

BASC has to increase its impact without letting costs rise much more; to do this, it has to increase the effectiveness of its current staff. BASC's management is facing the same dilemma faced by any service firm that wins a big contract. The obligation to perform under the contract requires a staffing and expenditure level that may not be sustainable after the contract expires. BASC's first obligation is to deliver the outputs expected under the Cooperative Agreement on time. This will require staffing up to the level needed, on the understanding that employment is grant-dependent. BASC can use the period of the Cooperative Agreement to determine if there is a viable long-term market and scale of operations that would be feasible in the absence of its grant funds. If the answer is negative, BASC must be willing to cease operations at the end of its Cooperative Agreement grant.

Market information to date is poor, and BASC will have to experiment with pricing and selling its brokering services to SMEs. No one knows the real extent of the market or the willingness of firms to pay. BASC will be breaking new ground and may find out that the market is too small to attract the kind of professional services that BASC offers. BASC doubled its income in FY 1994, but only by turning to consulting for firms large enough to pay full market price for private sector consultants.

By accepting consulting and training assignments from large business clients, BASC is competing with private sector enterprises that offer similar consulting and training services. While BASC is grant-funded it faces a dilemma. If BASC underbids private sector competitors for consulting assignments, those same competitors may feel BASC is using its USAID grant funds to an unfair advantage. If BASC always bids higher than its competitors, it will not win enough work to be self sustaining.

To avoid charges of unfair competition, BASC should not provide consulting services to clients capable of paying market rates. It can continue to offer *training* services to any company at market rates, but it should offer consulting services only to those SMEs that cannot pay the going market rates for private sector consulting services.

BASC can fulfill the terms of its Cooperative Agreement successfully without achieving sustainability, and serving SMEs should be its first concern. If BASC can find an efficient way to serve as intermediary between SME clientele and providers of technology, it will have demonstrated that there is a demand from SMEs and that BASC can serve it better than any institution has so far. Such an achievement might attract funding from other donors and sponsors.

RECOMMENDATIONS

Notification of Termination of Funding

The Mission should continue to advise BASC that USAID funding will cease at the end of the current Cooperative Agreement in 1996. BASC has to give first priority to serving SMEs and achieving the targets set forth in its Cooperative Agreement. If this type of work cannot be supported at market prices, BASC records should be good enough to document the extent of the subsidy required. BASC should not engage in consulting services for clients capable of paying market prices.

Regular Impact Assessments

BASC must begin providing USAID with regular impact assessments in a format that responds to USAID's requirements. At a minimum, BASC needs to report on changes in investment, employment (with specifics on women), and sales or earnings at client enterprises receiving assistance from BASC, particularly when such changes are partly related to BASC's assistance.

Market Survey

BASC should undertake a sample survey of what SMEs actually spend on outside consulting services, and the kind of service they purchase. This can be done by interviewing both SMEs and providers of services.

Market Development

BASC should assign each professional specific responsibility for contacting potential SME clients and selling BASC's services. Each of the 10 BASC professionals should be responsible for (1) identifying 15 legitimate SMEs that can be helped by technology or management assistance, (2) arranging to locate the help needed, and (3) doing all the follow-up necessary to document the impact of the assistance. If each person meets his or her goal, BASC will have helped 150 SMEs and will have 150 case studies to show for it. In the process BASC may also generate more income. Individuals who successfully assist more than 15 clients should be considered for special recognition or incentive awards.

Assistance for IESC and PIAG

BASC should contribute to PIAG's efforts to assess the impact of regulatory reforms at the SME level and identify reform issues critical to SMEs. BASC should offer to assist IESC in reaching small-scale entrepreneurs, perhaps by organizing a group of similar enterprises to be served by one volunteer executive working for a few days with each enterprise.

Training and Translation of Training Materials

If BASC cannot generate enough interest among SMEs for its technology brokerage services, it should spend its resources on training, charging rates roughly equivalent to those charged by other providers of business training services. Both BASC and the Mission should seriously consider the SME needs for basic business texts and materials in Bengali rather than in English. Use of BASC resources for translation of important text might be considered.

BASC as Funding Source for Technical Assistance

The Mission should consider using BASC to administer a program that partially subsidizes private sector providers of technical assistance to SMEs. In effect, BASC could be authorized to pay part of the training costs of any SME unable to pay the full costs of training provided by a private sector firm or a CCI. This would immediately make the private sector firms and the CCIs interested in attracting more SMEs to their programs. This arrangement would increase IPP's reach to SMEs, help develop private sector business advisory services, and dispel the notion that BASC is a competitor. The CCIs and private sector firms would have to (1) apply to BASC, (2) allow BASC to inspect the applicant SME and the proposed assistance or training, and (3) agree to provide follow-up information on the clients to BASC. In return, BASC would pay the provider a fixed amount toward the cost of training each SME or employee. This amount could be higher for training provided to rural SMEs.

To increase the probability that training subsidies would lead to job creation, BASC could approach larger, established firms in Bangladesh and offer to assist them with the cost of training SMEs to become local suppliers of some otherwise imported inputs. The larger firm would have to help by specifying the SME and the training needs. The Mission and BASC would have to be confident of BASC's ability to screen applications properly. Such an approach has the potential to vastly increase BASC's impact, but would still not make it financially sustainable.

Suggested Alternatives to BASC

Some of the functions and outputs expected of the BASC component could be achieved using private sector alternatives that are likely to be less expensive than starting up a new entity like BASC.

The work of disseminating technical or market information or even matching SMEs with suppliers of technology could be performed by a Bengali-language periodical or annual directory. Such publications could also carry useful articles for SMEs and advertisements from consulting and training firms. An SME column in an existing private newspaper would be even less expensive.

Providing training to SMEs can be financially attractive to private sector firms, depending on the scale of the program. It should be possible for an efficient private sector organization to provide training to a group of SMEs in an urban area without a subsidy. The Mission could encourage existing private sector training programs to reach even more SMEs by offering to subsidize a portion of the training, particularly training that reaches outside urban areas.

Providing customized technical assistance (i.e., good consulting) to any firm is costly and risky. It may be that SMEs lack the scale, market opportunity, and management ability to use customized consulting products efficiently. SMEs also have a limited ability to pay for outside assistance of any kind, so it is not unreasonable to expect that providing special consulting services to SMEs will be more costly, more risky, and less profitable than providing consulting services to more advanced firms. The private sector is not likely to provide such services in the absence of a subsidy. The Mission could offer a program to partially subsidize consulting services provided by private sector firms to SMEs. Because such a program would be difficult for the Mission to manage and would not be self-financing, the Mission should choose an administrating body that is otherwise viable, such as a dues-supported business organization, or even a private sector company.

One approach to providing technical assistance to SMEs could be modeled on the IESC program, which has succeeded by using expatriate volunteers to assist medium- and larger-sized enterprises in Bangladesh and elsewhere. A local analog could be built on a local NGO providing local experts, either volunteers or partially compensated volunteers, to assist SMEs. The IESC could help design this program, select the best local contractor, and assist in evaluations. Each case of assistance would have to be documented in the same (but improved) fashion that IESC uses for its VE assignments (see Chapter 4).

The Mission may be able to tap volunteerism and private sector resources interested in helping SMEs by sponsoring a competition for plans on how to assist SMEs, offering to partially finance the most attractive proposals. The competition could be open to private, for-profit firms as well as to NGOs.

6. Bangladesh United States Business Council (BUSBC)

BACKGROUND

The Bangladesh U.S. Business Council (BUSBC) is a nonprofit PVO incorporated in the United States to promote U.S. foreign investment in Bangladesh. Funding for this component of the Industrial Promotion Project (IPP) ended in 1991; it is no longer active as an IPP component. However, BUSBC's executive director (ED), Mr. Osman Yousuf, maintains a U.S. telephone listing for BUSBC, and the organization occasionally sponsors activities promoting U.S. investment in Bangladesh, including a luncheon for Bangladesh's Minister of Finance during his visit to Washington, D.C., in December 1994.

Between 1989 and 1991 BUSBC was part of IPP's emphasis on advisory services, along with the Business Advisory Services Center (BASC) and the International Executive Service Corps (IESC). All three entities were expected to contribute to Output 2, "increased business use of improved technology and management practices." BUSBC had existed since December 1987, when it began operations with the help of funding from the USAID/Bangladesh's Technical Resources Project. By 1989, BUSBC was already registered in the United States as a nonprofit organization under the laws of the Commonwealth of Virginia.[19] IPP continued BUSBC's funding for two more years.

The logframe specifies that by the end of the project BUSBC should have (1) "establish[ed] formal links with chambers and the American Bangladesh Economic Forum" (ABEF) and (2) "produced 24 investment reports available in USA and business opportunities created in Bangladesh."

The end-of-project status (EOPS) projected for BUSBC was that it should be "80% self-sufficient and providing investment information and liaison services for existing and potential U.S. investors."

BUSBC's Cooperative Agreement with USAID stated that BUSBC was organized to "create an awareness among the American business community and acquaint them with trade investment, development projects, tourism, and other commercial opportunities offered by Bangladesh, thereby promoting business and investment between the two countries."

Before ending in 1991, funding for BUSBC under IPP amounted to $144,000, covering 1989, 1990, and part of 1991. These funds were totally expended.

BUSBC ACCOMPLISHMENTS

BUSBC never established formal links with ABEF and never achieved financial self-sufficiency. BUSBC did produce some investment opportunity studies and promotional materials. It also sponsored some investment missions, but none led to any known investments. Table 6-1 summarizes BUSBC's achievement of its logframe targets.

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[19]State Cable 032956 regarding PVO status (1989), USAID/Bangladesh.

Table 6-1. BUSBC Achievement of Logframe Targets

Target	Achievement	Percentage of Target
EOPS: 80 percent self-sufficient BUSBC providing investment information and liaison services to existing and potential U.S. investors	Less than 10 percent of annual operating costs funded by dues; another 2 percent funded by fees and other income	10
Outputs: BUSBC established formal links with chambers and ABEF	No formal links established	0
Inputs: 24 investment reports available in United States and business opportunities created in Bangladesh	Inputs: 11 investment opportunity reports produced in addition to brochure and video; responses given to inquiries about business opportunities in Bangladesh	60-70

Note: EOPS = End-of-project status.
Source: IPP Project Paper, Section 3.5, p. 18.

Formal Links with ABEF and Chambers of Commerce and Industry

BUSBC never established formal links with ABEF or the chambers of commerce and industry (CCI). Despite the fact that these organizations had several members in common, their relationship to BUSBC involved more envy and disrespect than cooperation. From the perspective of ABEF and the CCIs, BUSBC lacked legitimacy as a representative of the interests of existing U.S. investors or businesses in Bangladesh. These organizations had not played a role in creating BUSBC, selecting its director, obtaining funding, or setting the agenda. BUSBC was run almost exclusively by a dynamic executive director, the aforementioned Mr. Yousuf, who cultivated the direct support of the Bangladesh government, as well as that of USAID and certain U.S. business interests. BUSBC did not treat ABEF or the chambers as part of its constituency.

BUSBC's executive director reported that he did ask ABEF to act as the Dhaka office of BUSBC and also that he made a proposal to ABEF to jointly sponsor a trade show on environmental technology. However, these overtures occurred as BUSBC funding was running out and ABEF declined both offers.

Although there is currently no official BUSBC office in Dhaka, inquiries are channeled to the offices of SYF Group, Inc., Mr. Yousuf's own company. The listed telephone for BUSBC in the United States also rings at SYF Group's Virginia office.

Sector Studies

BUSBC was expected to produce 24 investment reports for distribution in the United States. It did produce the following several sector studies and other publications that advertised business and investment opportunities in Bangladesh:

- *Bangladesh: A Review of Industrial Sector Studies, 1990* (72 pages, 10 sector studies);
- *Bangladesh: A Welcome Choice for Investments* (20-page color brochure), 1990;
- *Electronics in Bangladesh: Exploring the Opportunities*, 1989; and
- *Bangladesh: A Country with Potential* (10 minute slide show on videotape, $35 each).

Earlier, before receiving IPP funding, BUSBC had prepared

- *Guidelines for Joint Ventures in Bangladesh*, 1988;
- *Aquaculture in Bangladesh: Information for Investors*, 1988; and
- *An Investor's Guide to Business in Bangladesh*, 1989.

BUSBC also produced approximately 12 quarterly bulletins that were mailed to some 900 companies that expressed interest in Bangladesh. A Business Information Package costing $25 and containing several BUSBC publications was also produced, as was a final report covering activities and accomplishments during the period of IPP funding (1988–1990).

Investments Facilitated

In interviews with the evaluators the executive director could not offer an example of any investment in which BUSBC played a pivotal or critical role, but he feels there are still some investments under consideration that may occur in the future and that did utilize BUSBC services.

During the period of IPP funding, BUSBC sponsored seven conferences and seminars and two investment promotion missions. In 1989 BUSBC organized a series of seminars in New York, Houston, and San Francisco for a delegation from Bangladesh headed by Prime Minister Moudud Ahmed. In 1991 BUSBC held a 1-week mission to Washington, D.C., New Orleans, and San Francisco, headed by Minister of Industries Shamsul I. Khan. These missions did not involve U.S. investors traveling to Bangladesh, but rather contingents of Bangladesh business representatives and government officials travelling to the United States in search of potential investors. The final report on the 1991 investment mission says that the mission did "facilitate the development of specific joint venture projects in Bangladesh," but no specific venture is cited. Participants recommended that future missions (1) seek to promote trade as well as investment and (2) focus on specific sectors such as electronics and agroindustry.

The ED told evaluators that BUSBC's U.S. office received many inquiries for information about trade and investment opportunities in Bangladesh. The majority were general in nature or related to the ready-made garment (RMG) business. The ED was not aware of any investment that might have occurred as a result of these inquiries. He did believe that BUSBC had played an initial, facilitating role in the case of four projects, one or more of which may eventually lead to a significant investment in Bangladesh:

- Software development project started by Bangladeshi software engineers in the Boston area. This project was abandoned when IFC declined to take an equity position.
- Connecticut dairy company project planned in partnership with a Bangladesh pharmaceutical company. The project was abandoned because Bangladesh tariff structures made imports of key components too expensive for the project to be profitable.
- Olympia Motors, a project to build an assembly plant in Dhaka for small, four-wheel, light-weight utility vehicles. Olympia Motors has invested in developing a prototype, and part of the investment to date has been made in Bangladesh with local partners; however, the project is still in a development phase.

- Coal mining project initiated by a Utah company, BHB, that had been investigating projects in Bangladesh before BUSBC was created. BHB became a member of BUSBC and relied on their services to track information on Bangladesh's foreign investment climate, especially in the mining sector. Today BHB is still seeking to negotiate a mining concession in Bangladesh, but has not yet done so.

Records and Follow-Up

BUSBC's reports to USAID do not indicate that its U.S. office kept a set of organized records of the type that a professional investment promotion office should keep (e.g., telephone logs, data on inquiries, responses, referrals, follow-up actions). A 900-name U.S. mailing list was assembled but not used as a database. Apparently BUSBC made some direct referrals to private businesses in Bangladesh, but did not make referrals (of U.S. inquiries) to the chambers or the ABEF. The mailing list was not shared with ABEF or the CCIs.

SELF-SUFFICIENCY

BUSBC failed to generate a source of steady revenue large enough to cover its operating costs. During its life BUSBC had between 26 and 33 dues-paying members in the U.S., each of which contributed between $200 and $300 annually. That income, $5000 to $7000, covered less than 10 percent of annual office operating costs (before programs and events). Other fees and publication sales brought in another $3000 per year in some years.

BUSBC operated under a Cooperative Agreement with USAID from December 15, 1987, through December 1990. USAID funding for that period totaled about $323,750 ($144,000 from IPP). Through membership dues and fees BUSBC raised another $28,000. In late 1990 BUSBC reportedly received an unconditional grant from the Bangladesh government for $100,000 in support of its programs.[20] USAID also extended the Cooperative Agreement (CA) period an additional 6 months (January–June 1991) for a BUSBC-sponsored investment mission from Bangladesh to the U.S. in 1991. After the May 1991 cyclone, the investment mission was rescheduled and BUSBC's CA was extended without additional funding. The investment mission was completed, and the CA expired in September 1991. In 1994 BUSBC still solicited dues from a small core of less than twenty members.

RECOMMENDATION

BUSBC is an inactive component of IPP. No effort should be made to restart this activity. The only recommendation is that ABEF ask BUSBC for a copy of its mailing list, if ABEF thinks this would be useful.

[20] Although not made under the specific terms of the Cooperative Agreement, the $100,000 grant represents a significant if unusual "host country contribution" to an USAID-funded initiative. Moreover, the government grant was apparently made in dollars.

LESSONS LEARNED

The experience of the BUSBC component of IPP offers six lessons:

1. BUSBC undertook an ambitious agenda that was not financially sustainable without government or donor funding. BUSBC pursued the agenda as long as donor funds lasted and never made viable plans for self-sustainability. BUSBC's dues-paying members were mostly U.S. companies already operating in Bangladesh, but BUSBC's activities were focused more on helping the Bangladesh government to attract new investors than on serving the needs of existing members. The expensive promotional activities that BUSBC pursued were consistent with the terms of its Cooperative Agreement, but no one could expect its dues-paying members to fund such activities in the absence of donor or BDG funding.
2. Stipulation in the Cooperative Agreement that BUSBC establish links with ABEF and the chambers of commerce and industry was not enough to make that linkage happen. BUSBC was not as good at making allies with private sector organizations as it was at obtaining support from USAID and the Bangladesh government.
3. Implementation through an NGO with favorable ties to the government was quicker than would have been possible working through a government ministry.
4. The BUSBC program did have some technological "spillover" effects. It helped improve the way Bangladesh businessmen and officials thought about attracting foreign investment. After IPP funding expired, BUSBC's executive director was hired by the Bangladesh government in 1992 to develop a plan for reorganizing and strengthening Bangladesh's Board of Investment (BOI). In 1994–1995, Occidental Petroleum negotiated an oil and gas exploration and production agreement with the BDG using Mr. Yousuf's services—skills and processes he learned while director of BUSBC.
5. There is a long lead time, and a low success rate, between the time efforts are made by an investment promotion agency and any eventual investment.
6. In the context of modern communications and transportation, the need for developing countries to establish investment promotion offices in developed countries is questionable. It was argued BUSBC was needed in the U.S. because Bangladesh's embassy personnel were not capable of adequately promoting investment opportunities. This argument, however, cannot explain why foreign direct investment in Bangladesh from Korea and Malaysia vastly exceeds that from the United States. Serious international investors from Korea, Malaysia, or the United States rely very little on any local embassy or promotion office for information or contacts that are critical to their investment planning.

Appendix A

SCOPE OF WORK FOR INDUSTRIAL PROMOTION PROJECT EVALUATION

IQC No. AEP-5451-I-00-2058-00
Delivery Order No. 16
Attachment A

I. Activity Identification

The activity to be evaluated in the Industrial Promotion Project (388-0076), which began in 1989 and will end in 1996. IPP consists of a bilateral component and several non-bilateral components. The bilateral component, the Policy Implementation and Analysis Group (PIAG), is implemented through a Project Grant Agreement (ProAg) with the Government of Bangladesh (BDG) with support from the Ministry of Industries (MOI). Non-bilateral components, carried out under separate institutional agreements, consist of the International Executive Service Corps (IESC), the Business Advisory Services Center (BASC), and the Bangladesh-U.S. Business Council (BUSBC). A final component, the Small Industries Credit Insurance Scheme (SICIS), is planned for implementation in conjunction with the Office of Investment in USAID Washington.

II. Purposes of the Evaluation

This is the first assessment of activities and takes place in the fifth year of a seven-year project. The purposes of the evaluation are: (a) to provide an assessment of project progress to date in relation to the project purpose and planned program outputs, (b) to assist USAID and other project stakeholders to identify short and medium term changes to project implementation to improve project performance, and (c) based on the experience with project to date to suggest future directions for private sector development in which the USAID/Dhaka Mission might invest.

III. Background

The purpose of the Industrial Promotion Project (IPP) is "to reduce policy, technological and credit constraints to Bangladesh private sector investment." IPP activities reinforce Mission Strategic Objective No. 2: "increased employment, productivity, and competitiveness in the agricultural, financial and industrial sectors by strengthening market mechanisms in the industrial sectors, improving technology and efficiencies of business enterprises and business support organizations. Achievement of this strategic objectives and others is expected to lead to the Mission subgoal of sustainable economic growth with increased participation of the poor, and goal of increasing the proportion of Bangladeshis living above the poverty line.

The Mission has recently revised the logical framework of IPP to bring it in line with current Mission strategic objective for economic growth. While the earlier IPP logframe goal emphasized employment creation in the Bangladesh private sector, the revised one more broadly aims at "increased employment, productivity, and competitiveness." IPP seeks program outcomes in three areas:

- Reduced policy, legal and regulatory constraints impeding business expansion and investment;
- Increased business use of improved technology and management practices; and
- Increased access to private bank lending by micro, small and medium businesses in Bangladesh.

Although launched in 1989, project implementation has been slow because of inadequate staffing, disruptions during 1990-91 national political upheavals, the April 1991 cyclone and the Gulf war. In some ways the slow take-off has been fortuitous. A new democratically-elected government came into power in 1991 which embraced market-oriented economic goals. The GOB's 1991 Industrial Policy, which the Prime Minister celebrates as the "most liberal in South Asia," was promulgated, expanding the potential for what IPP might achieve in policy reform. Also, IPP can now leverage up to $175 million in industrial sector investment credit by the World Bank -- designed to produce policy reforms -- under the Industrial Sector Adjustment Credit (ISAC-1 and -2).

The components of IPP are expected to contribute to the achievement of the purpose of the project as follows:

Policy Implementation and Analysis Group: PIAG is designed to help the Government of Bangladesh to implement Bangladesh's 1991 Industrial Policy and to assist the Ministry of Industries specifically to identify legal, regulatory and procedural constraints to industrial formation due to policy implementation problems, and to conduct industrial and non-industrial policy analyses in support of deregulation and other reforms.

PIAG began in late 1992 with the signing of a contract with the InterAmerica Management Consulting Corporation (IMCC), and the PIAG office in the Ministry of Industries only became functional in late 1993. This component is scheduled to end in September 1994 but may be extended one year.

Business Advisory Services Center: Launched in late 1991, BASC is a non-bilateral component of IPP designed to provide consulting services management and other training and technical and market information to interested Bangladesh businesses. Initially, it was operated as a project of the Micro Industries Development Assistance and Services (MIDAS), which was entrusted with the task of launching BASC . In October 19 9 3, BASC was registered as a company limited by guarantee, with a board made up of distinguished Bangladeshis.

International Executive Service Corps: Another dimension of the businesses services component of IPP, IESC was registered in Bangladesh in 1989 as a US-based non-profit organization . This is a non-bilateral component of IPP which is funded by USAID in Washington, D. C. IESC/B began fielding highly skilled U . S . business and other executive volunteers in 1991 to assist selected businesses and other institutions to increase productivity and overcome their technical problems. There are plans to extend the component at no additional cost.

Bangladesh - U. S. Business Council: Based in the United States, BUSBC aimed to encourage business links between the two countries . USAID's assistance to this component ended in 1991.

Small Industries Credit Insurance Scheme: SICIS is a legislated loan guarantee program, run by the Office of Investment in USAID Washington. This component is aimed at fostering the expansion of small businesses in Bangladesh . The Office of Investment has indicated its willingness to commit guarantees to qualifying private banks, for loans ranging from $1,250 - $5,000.

In October 1993, USAID in collaboration with the Ministry of Industries and BASC organized a workshop on loan guarantee options including SICIS. Although a few private banks have showed interest on SICIS since the workshop, no applications have been submitted to date.

IV. Statement of Work

The Contractor shall assess both macro and micro effects of the various components of this project:

- At the macro level, the Contractor shall attempt to gauge the contributions of the components in promoting Bangladesh's industrial investment, production and employment. More specifically, the Contractor shall assess the extent to which the indicated activities have been carried out in relation to pertinent logframe outputs and/or expected achievements. Macro economic secondary data, case studies, interviews with project staff and with project beneficiaries may form the major source of information.

- At the micro level, the contractor shall assess the level and effort of implementation of activities agreed upon by the participating contractor and/or institutions. For enhanced effectiveness, the Contractor shall also recommend adjustments and modifications to the remaining planned actions under each of the components. Furthermore, the Contractor shall suggest how USAID may benefit from the lessons learned from this project in developing future projects related to the industrial sector.

The Contractor shall attempt to address specific issues for each of the components of the IPP including:

The Contractor shall address the following issues and questions regarding IPP's components:

PIAG:

1. The effectiveness of PIAG to date, opportunities available, and the potential for future impact in improving the investment climate in Bangladesh. The actual and/or potential impact of PIAG activities on employment, productivity, and competitiveness.

2. Has the component contributed to enhancing policy implementation exercise within the Ministry of Industries and outside? What has been PIAG's contributions in strengthening MOI's ability and willingness to implement policy reforms?

3. What role is PIAG playing in stimulating policy reform dialogue? How effective has been USAID's monitoring strategy? Are any changes during the remaining period of the project recommended?

-12-

BASC:

1. Assess BASC's Work Plan, including its Five Year Business Plan, in terms of its stated objectives and sustainability.

2. Evaluate the administrative and professional performance and achievements of BASC so far, and its potential for improvement. To what extent has BASC been successful in promoting small and medium-sized industries and women-owned enterprises?

3. Can BASC become self-sustaining? If so, under what conditions? Is there adequate demand for BASC-type services? What other services should BASC provide?

4. Compared to other components of IPP, BASC receives closer monitoring and technical support from USAID. How effective has the monitoring of BASC by USAID been? How can it be improved?

5. Are there lessons from the MIDAS experience which should be considered in promoting BASC?

6. How effective and useful have BASC's linkages with other IPP components been?

7. Is the concept of BASC brokering advisory services viable? Will it be more effective and sustainable for BASC to build Itself up as a consulting firm providing services directly to its clients?

IESC:

1. How effective have the IESC volunteers been in enhancing employment, productivity, and profit for Bangladeshi enterprises? IESC has typically catered to medium and large businesses and not to small enterprises as originally envisaged. Should attempts be made to accommodate smaller units?

2. How effective has the program been in selecting the firms and matching them with suitable volunteers?

3. How effective has IESC home office and in-country support been to the program?

SICIS:

1. What is the expected demand for SICIS resources by private banks in Bangladesh?

2. What are the principal constraints of private banks on developing the capability to provide credit gap lending? Economic? Administrative? Social or political?

3. What actions must SICIS participating banks take to effectively respond to demand for micro, small and medium scale business lending?

4. Now that the Bangladesh Bank (central bank) has launched its own Small Industries Loan Guarantee program, what is the appropriate role for SICIS? Are the programs complementary or duplicative?

Bangladesh-U.S. Business Council:

1. Review and comment on the components activities and achievements in relation to planned component outputs and accomplishments.

2. Suggest what lessons may be learnt from this component?

V. Methodology and Data Sources

The contractor shall determine an appropriate evaluation methodology of suitable analytic rigor. The Mission suggest that the study approach include the following:

1. Review of project reports, including, inter alia:

a) Industrial Promotion Project Paper of USAID/Dhaka, 1989 (388-0076)
b) Project Grant Agreement between GOB and USAID for IPP, August 31, 1989
c) Project Implementation Order/Technical Services (PIO/T) of PIAG
d) Contract between IMCC and USAID on PIAG
e) IPP original and revised logframe
f) PIAG's Work Plans
g) BASC's Work Plan for 1994-96
h) IESC reports
i) BASC's Five Year Business Plan
j) Cooperative Agreement between USAID and MIDAS on BASC
k) Memorandum and Articles of Association of BASC
l) BASC section of MIDAS evaluation.

2. Interview key Individuals of the various IPP components, including:

PIAG: MOI senior officials, PIAG staff, private sector entrepreneurs, business associations.

BASC: BASC Board Members, BASC staff, selected entrepreneurs who have received services from BASC, and similar other enterprises which have not.

IESC: Selected IESC-assisted enterprises, and small and medium enterprises which have not participated in the program.

SICIS: Commercial banks that are participating/showed interest in participation; commercial banks which have not responded to the program; selected commercial banks that are currently implementing GOB's small industries loan guarantee scheme; officials of Bangladesh Bank and the Ministry of Finance.

- 14 -

3. Selected case studies of businesses which have received services of BASC and/or IESC.

VI. Team Composition

All team members should have experience in conducting evaluations in developing countries. All should have excellent analytic ability and writing skills.

Team Leader: The Contractor shall propose one of the Expatriate Team Members to be Team Leader. The Team Leader shall coordinate and manage the team in the conduct of the evaluation, and shall lead the production of the report. Consequently, s/he should have significant experience in evaluations, and should possesses excellent interpersonal, managerial and writing skills.

The Contractor is responsible for identifying, contacting, and obtaining the services of the Bangladeshi team member and other Bangladeshi support and/or professional services it needs. USAID/Bangladesh can suggest contacts for identifying the Bangladeshi team member should the Contractor wish.

VII. Performance Period and Level of Effort

The evaluation should begin in Bangladesh October 1, 1994. All team members will be required in Bangladesh for four weeks on a six-day work week. Two person days should be allocated in Washington, D.C. either before or after the work in Bangladesh to: (i) meet with AID's Bangladesh desk officer to discuss and review materials on BUSBC; and (ii) meet with representatives of BUSBC to discuss their views on the project. The Contractor shall determine which of the two expatriate consultants will conduct these meetings. The Team Leader will have up to five work days in the U.S. to complete the final version of the evaluation report.

A six day work week in Bangladesh is authorized.

VIII. Reporting Requirements

A. Delivery: The Contractor shall submit a first draft of the evaluation report before the team departs Bangladesh, and shall debrief Mission staff on the major findings and conclusions. The Contractor shall submit at least 50 copies of the final version of the evaluation report to USAID/Dhaka within two weeks of receipt of the Mission comments on the draft.

B. Evaluation Report Format:

- Executive summary: approximately 3-5 pages
- Statement of Findings, Conclusions, and Recommendations: Findings and Conclusions shall be succinct, with the topic identified by a short sub-heading related to the area(s) of investigation identified in the Statement of Work (Section IV). Recommendations shall correspond to major findings, be prioritized, and specify who or which agency should take recommended action and the recommended time-frame. (The Statement of Findings, Conclusions and Recommendations may be included as part of the Executive Summary.)
- Body of the Report: The report shall provide the evidence and analysis to support the findings and conclusions. Data presented in the report shall be aggregated by gender to the extent possible. The report shall not exceed 40 single spaced pages, unless otherwise

agreed by USAID in advance.

- Annexes: Shall include <u>at least</u> the following:
    - Evaluation Scope of Work
    - Resumes of Team Members
    - Description of Evaluation Methodology
    - Bibliography of Documents Consulted
    - List of Persons Contacted
    - Case Studies

AID Evaluation Summary: The Contractor shall complete Section H, "Evaluation Abstract" and Section J, "Summary of Findings, Conclusions, and Recommendations" of the AID Evaluation Summary, and submit these to USAID/Bangladesh with the Evaluation Report.

IX. Team Meetings and De-Briefings

The evaluation team shall meet upon arrival with the Director of the Office of Economics and Enterprise, the Supervisory Private Enterprise Officer, the Project Officers and the Mission Evaluation Specialist. The team will be introduced to the PIAG team, BASC officials, and IESC's local representative within the first week of the visit.

The team shall present a workplan and outline of the final report to USAID for approval by the Project Officer and Evaluation Specialist within one work week of arrival.

The team leader and other team members, as appropriate, shall meet weekly thereafter with the Project Officer and the Evaluation Specialist to provide verbal reporting on the progress of the evaluation.

The team leader shall conduct a formal debriefing for USAID/Bangladesh and other project stakeholders prior to departure from Bangladesh. S/he shall submit a draft version of the evaluation report three days prior to this debriefing.

USAID and other project stakeholders will review the draft report and will convey comments on it, in writing, to the Contractor no later than 10 working days after receipt of the draft. As noted in Section VIII, the Contractor shall submit the final version of the report to USAID within 3 work weeks of receipt of comments.

X. Logistics

The Contractor shall organize the logistics of the evaluation. This includes accommodation, office space, computer rental, secretarial and other support services, transportation, and interview scheduling. USAID staff will provide advice and assistance wherever possible to facilitate logistics.

Appendix B

RESUMES OF EVALUATION TEAM MEMBERS

Exhibit B-1. Mr. John W. Varley
Exhibit B-2. Dr. Thomas A. Timberg
Exhibit B-3. Mr. Mirza Najmul Huda

11

NATHAN ASSOCIATES INC.

NAME: John W. Varley

CITIZENSHIP: United States

EDUCATION: M.A., International Economics, Johns Hopkins University, 1971
B.S.F.S., Georgetown University, 1969

LANGUAGES: English; Spanish, French

COUNTRIES OF WORK EXPERIENCE: Bangladesh, Costa Rica, Eastern Caribbean, Egypt, El Salvador, Guatemala, Honduras, Korea, Nepal, Nicaragua, Northern Marianas Islands, Pakistan, Panama, Philipppines, United States

EXPERIENCE SUMMARY:

Mr. Varley, a principal associate at Nathan Associates, is an economist and financial analyst with more than 20 years of experience in financial analysis, project management, project appraisal, business planning, budgeting, and sector or program evaluation on assignments for international development agencies, development banks, government agencies, and private sector investment groups. Mr. Varley has completed two long-term financial analysis assignments in Bangladesh. During 1992, he worked on long-term financing and capital markets studies for the Bangladesh Central Bank as part of A.I.D.'s Financial Sector Reform Project. From 1989 to 1991, he served as the Chief Technical Adviser for a joint project between the Asian Development Bank (ADB) and the United Nations Development Programme (UNDP) to improve staff capabilities and rehabilitate the portfolios of the two development finance institutions (DFIs) in Bangladesh. He advised management on a program to improve financial performance and prepare for the privatization of one of the DFIs. Mr. Varley's broad experience has also allowed him to apply project appraisal techniques to a variety of industries and infrastructure projects. He is currently undertaking a market analysis for the preliminary determination of the feasibility of a proposed fishport (to be financed under a BOT/BOO scheme) in the Philippines. He has also worked on feasibility studies for several port development projects in the United States and Panama. In 1993, Mr. Varley developed and delivered a 5-week course in project appraisal to engineering and economic staff of the Project Preparation Department of the Ministry for Public Works and Water Resources in Egypt.

EMPLOYMENT RECORD:

Principal Associate, Nathan Associates Inc., 1986–present. Long-term assignments include the following

USA
1993-Present — Director. Financial Sector Services Practice, International Division.

Philippines 1994	For an AID/Manila funded project, undertook a market analysis for the Ternate Fish Port to determine volume, prices, and types of marine products which the fishport will handle including their aquatic sources, and identified other ancillary services that the facility may provide. The market analysis considered any potential rehabilitation, upgrading, or expansion plan for a neighboring port since that port services could have a substantial impact on the viability of the Ternate Fishport.
Egypt 1993	Developed and delivered a 5-week course in project appraisal to engineering and economic staff of the Project Preparation Department of the Ministry for Public Works and Water Resources. Assisted the department in developing a methodology for incorporating failure risk into cost-benefit analysis of major repair and rehabilitation projects.
Bangladesh 1991–1992	As a macroeconomist on the USAID/Bangladesh–funded Financial Sector Reform Project, surveyed sectoral credit and capital markets for the Bangladesh Central Bank. Wrote report titled *Returns, Risks, and Capital Markets Development in Bangladesh.* Participated in initial efforts to structure the privatization of BSRS and served on the official Ministry of Finance committee to draft legislation and amendments governing securities issues and trading.
Bangladesh 1989–1991	For an Asian Development Bank project, served as team leader and chief technical adviser to the country's two development finance institutions, BSB and BSRS, organizing portfolio rehabilitation and loan recovery efforts. Assisted plans for privatization of BSRS. Advised management on revision of lending policies, on loan loss provision policies, and on rescheduling and restructuring negotiations with borrowers. Designed and provided staff training in project appraisal techniques and prepared and delivered formal workshops and training courses on financial, institutional, and economic analysis of projects for loan officers. Helped to establish permanent training cycles in BSB and BSRS, including a program of training for trainers to conduct project appraisal courses. Supervised a review with recommendations for improving the personnel development system. Also organized and supervised computerization of the loan accounting and MIS of the DFI.
Eastern Caribbean 1989	Evaluated the financial reporting and management record of the Eastern Caribbean Investment Promotion Service (ECIPS), an organization funded primarily by A.I.D. that promotes investment in the island countries of the Eastern Caribbean. As part of an A.I.D.-funded team evaluation of the project, recommended reducing A.I.D. funding and introducing a cost sharing formula requiring greater funding by member countries.

Honduras 1986–1988

Served as team leader of a Nathan Associates technical assistance project to the Central American Bank of Economic Integration (CABEI), financed by AID/ROCAP. The project team was responsible for working with CABEI's special section of five loan officers to rehabilitate a portfolio consisting of 25 problem loans made to private sector enterprises in four Central American countries. Arranged for asset evaluations and feasibility studies of non-performing enterprises. Developed analytic framework for estimating recovery to CABEI from alternative options. Assisted in development of offering students and investors search efforts for rehabilitation candidates. Assisted in rescheduling and restructuring negotiations between CABEI and borrowers. Improved computerized analysis of restructuring alternatives.

Vice President, R.F. Varley Company, Inc., 1982–1986. Employed by small family-owned business in the oil field service industry. Served as president of Louisiana Bio-Fuel, a subsidiary formed to pursue opportunities in alternative energy development. Also worked as an independent consultant to Nathan Associates.

Nepal 1986

Carried out a Nathan Associates project, financed by the UNDP, to prepare a special review of selected industrial projects for the national development budget for FY 1986 and to recommend a program for introducing performance budgeting procedures in the Ministry of Finance.

Pakistan and Costa Rica 1985

Prepared an evaluation review of a private sector feasibility study of a cost-sharing program offered by the Bureau of Private Enterprise, A.I.D.

Research Associate, Associate, Senior Associate, Nathan Associates Inc., 1973–1982. Responsible for cost-benefit analysis, market analyses, and forecasting assignments on a variety of overseas and domestic projects.

United States 1978–1982

Designed and implemented the A.I.D. Financial Management Training Course, a 4-week course developed for U.S. and foreign staff in the controller's section of A.I.D. Missions. The course used lectures, problems, and case studies to introduce accountants and controllers to the fundamental techniques used in the economic and financial analysis of projects, including discounted cash flow methods for calculating net present worth and internal rates of return.

United States 1982

Prepared and delivered a lecture on The Going Concern Value of a Company in a seminar for Washington, D.C.-area lawyers concerned with valuation issues in a litigation setting.

Nepal 1981

Participated in a study commissioned by the A.I.D. mission to review and evaluate disbursement and accounting procedures used by the Nepalese Government on projects cofunded with A.I.D. and to evaluate cost–benefit measures developed for a series of projects.

80

Panama 1980	Participated in a Panama Port Feasibility Study commissioned by the World Bank. Authored special report section on demand for drydock and ship repair services.
Korea 1979	Served as project economist for a major regional planning study of the Taebaeg region in Korea for the UNDP. Helped to produce a regional development plan with specific projects suitably documented for donor financing and to carry out an on-the-job training program for managers and research staff at the Korea Research Institute for Human Settlements.
Northern Mariana Islands 1978	Served as technical assistant to the government Bureau of Budget in Saipan for annual update of 5-year development budget.
El Salvador, Nicaragua, and Guatemala 1973–1978	Served as project economist on a series of tourism and hotel development projects in three Central American countries. Trained Salvadoran and Nicaraguan counterpart economists in techniques of project evaluation.
United States 1973	For the Chicago Board of Options Exchange (CBOE), participated in the preparation of *Analysis of the Volume and Price Patterns in Stocks Underlying CBOE Options form December 30, 1974 to April 30, 1975.* Was principal contributor to a special study covering December 31, 1975, to January 16, 1976, summarized in another report distributed to the public: *Analysis of Volume and Price Patterns in Stocks Underlying CBOE Options from December 31, 1975 to January 16, 1976.*

PUBLICATION:

"Returns, Risks, and Capital Markets Development in Bangladesh." Presented to the annual meeting of the Association For Economic and Development Studies on Bangladesh, Washington, D.C., September 1992.

OTHER:

Guest Lecturer: Georgetown University/School of Foreign Service/Masters Program Course in "*Finance and Development*", Spring Semester, 1994, Member of Team.

91

NATHAN ASSOCIATES INC.

NAME: Thomas A. Timberg

CITIZENSHIP: United States

EDUCATION: Ph.D., Political Economy and Government, Harvard University, 1973
A.B., magna cum laude, Harvard College, 1964

LANGUAGES: English; Bengali, French, Hindi/Urdu, Russian

COUNTRIES OF WORK EXPERIENCE: Afghanistan, Bangladesh, Bolivia, Burkina Faso, Côte d'Ivoire, Honduras, India, Kazakhstan, Niger, Malaysia, Pakistan, Sri Lanka,

EXPERIENCE SUMMARY:

Dr. Timberg is Director for Special Projects at Nathan Associates. From 1985 to 1990, Dr. Timberg directed the ARIES (Assistance to Resource Institutions for Enterprise Support) Project, a worldwide project to strengthen promotional institutions and policies for small and microenterprise. Since that point, he has supervised and participated in a range of Nathan Associates activities in financial sector reform and enterprise promotion policy and institution building in Honduras, India, Bangladesh, Sri Lanka, and Afghanistan. Dr. Timberg is currently a member of a multi-disciplinary team working with the anti-monopoly committee of Kazakhstan for six months on anti-trust and enforcement issues.

Previous to joining Nathan Associates, Dr. Timberg served as an adviser to World Bank and USAID supported small and micro enterprise promotion projects in Bangladesh, and had an extensive consulting practice with the World Bank and USAID, as well as teaching at the Foreign Service Institute and universities. He is currently an Adjunct Professor at the Georgetown University School of Foreign Service. Dr. Timberg writes and speaks extensively on financial sector development, business and enterprise development, macroeconomic policy, and related issues.

EXPERIENCE RECORD:

Principal Associate, Nathan Associates Inc., 1985-present. Serves as director of special projects of the firm. Projects include the following:

Kazakhstan
1994-95

Currently working with a multi-disciplinary team funded by USAID to increase the understanding of anti-trust and enforcement principals within the anti-monopoly committee of Kazakhstan. Serves as advisor to the Oblast Antimonopoly Committees in Pavlodar and Vostochno-Kazakhstan Oblasts on the development of demonopolization plans for enterprises undergoing privatization. Actual cases under review by the committee include trucking, pharmaceutical and milk combines.

United States 1994	Served as Adjunct Professor at Georgetown University, School of Foreign Service. Taught course on financial development.
Bangladesh 1994	Served as team leader and policy analyst on an assessment of enterprise programs in Bangladesh for USAID. Identified successful approaches and methodologies for targeted interventions, and indicated useful policies and procedures for future projects and programs in the sector.
Afghanistan 1992-93	Wrote study scopes of work for the Afghan Studies series for the Office of the A.I.D. representative in Pakistan. Directed studies of opium cultivation and use in connection with developing antinarcotics strategy.
Bangladesh 1992	Served as member of World Bank team assessing informal sector alternatives for agricultural credit.
United States 1992	Wrote chapter on entrepreneurship for use in annual *World Economic Survey*, an annual publication of the U.N. Development Program. The chapter outlines the role of entrepreneurship as a key element of growth and development, defines measures at the national and international levels to promote entrepreneurship, and suggests how the international economic community can support the development of entrepreneurship in national economies.
India 1991	Directed market survey for A.I.D. project on Trade in Environmental Services and Technologies.
Worldwide 1991	Participated in U.N. Capital Development Fund (UNCDF) country program review.
Worldwide 1985-1990	Directed the research, training, and technical assistance components of the ARIES Project. Supervised technical assistance teams in financial, government, and macroeconomic policy analysis, small- and microenterprise (SME) sectoral surveys, and the design, development, and evaluation of SME support programs worldwide. Undertook short-term technical assignments.
Sri Lanka 1990, 1993	Reviewed proposed World Bank Antipoverty Project.
Malaysia 1990	Served as member of an ADB mission assessing preproject technical assistance for project on Small-Scale Industry.

Pakistan 1990-1991	Served as senior economist on team reviewing the Afghan experience with financial markets before and after 1978 and outlining alternative means of meeting Afghanistan's financial needs after peace is established. Served as senior economist on study of Afghan land and its implications for refugee resettlement.
Bolivia 1989-1991	Reviewed, on a regular basis, USAID Mission financial sector programs in connection with Strengthening Financial Institutions Project. Participated in review of the financial sector.
Honduras 1989-present	Provides technical supervision of the USAID Small Business Development Project. Reviewed relationship of projects to general financial activities of the mission. Did study of prudential concerns in microsavings generation and poverty lending.
Bangladesh 1984-1985	As project adviser of the Rural Industries Project, USAID/Dhaka, advised in the development and implementation of the MIDAS Program. Helped create a venture capital fund and SME promotion institution focusing on labor-intensive, export-oriented enterprises. Developed experimental initiatives such as forward subcontracting, targeted asset creation, joint venture search, and other important tools in small-enterprise development. Consulted on a variety of other A.I.D. small-enterprise finance and promotion projects.
Bangladesh 1985	Served on a team to study the effects of the Rural Electrification Program.
Bangladesh 1982-1984	Served as project adviser on the Studies in Rural Industrialization Project for the Ministry of Planning of the Government of Bangladesh and the Bangladesh Institute of Development Studies financed by the World Bank.
India 1984	Served on a team to evaluate the potential for agro-industries projects for USAID/India.
United States 1982	Served as commentator on a private enterprise review.
Côte d'Ivoire, Niger, Burkina Faso 1981	Served as a member of the Impact Evaluation Group on African Enterprise Program to evaluate small-scale enterprise loans in these countries and Benin and Togo.
India 1980	Served as adviser on the social impact of agricultural development and on programs to increase nonagricultural employment, USAID/India.

India 1977-1980	Conducted a study of small-scale enterprise in Bombay. Headed research subgroup on informal credit markets in India for the World Bank.
India 1979	Served as leader of a study group for USAID/India to recommend a 3-year plan for research and evaluation.

Consultant, Sullivan and Frost, Management Consultants International, and Kramer Associates, 1982-1985. Projects involved risk analysis, market strategy, training, and education.

Chairman, South Asian Studies section of the Foreign Service Institute, U.S. Department of State, 1977-1982. Designed and taught training programs for U.S. government personnel.

Lecturer, Business Council for International Understanding; Tata Institute for Social Sciences (Bombay); University of Virginia; University of Chicago; Harvard University; University of Pennsylvania; Michigan State University; University of Maryland; and USIS (Bangladesh, Malawi, Ghana, Nepal, Sri Lanka, Pakistan, Romania, and India); National Defense University, Calcutta University, Bangladesh Institute of Strategic and International Studies, Quaid i Azam University, and University of Karachi; International Law Institute, 1973-1977.

NAME: Mirza Najmul Huda

CITIZENSHIP: Bangladesh

EDUCATION: M.B.A., University of Dhaka, 1970
B.S., Mechanical Engineering, Bangladesh University of Engineering, Dhaka, 1968

LANGUAGES: English, Bengali, Urdu

COUNTRIES OF WORK EXPERIENCE: Bangladesh, Germany, Iran, Malaysia, Saudi Arabia, Singapore

EXPERIENCE SUMMARY:

Mirza Najmul Huda has 23 years of experience with industrial management and policy. He served as a local consultant with the Trade and Investment Policy Programme in Bangladesh for several years, and then was Project Management Officer and Director of Development at the Micro Industries Development Assistance Society (MIDAS) in which connection he directed a 25-person consultancy organization that undertook consultancy both on industrial projects and industrial policy. Since 1992, he has been serving as an independent consultant. Among his recent consultancies are one on the garment and textile sector for the German Aid Agency (Gtz), work as adviser to the employment sector of a DANIDA (Danish Aid) rural development program, as well as studies on particular policy and project matters for private and foreign clients.

EMPLOYMENT RECORD:
Independent Management Consultant, Dhaka, Bangladesh, 1991-present. Recent assignments include,

Bangladesh 1992	Team leader for a study of Improved Stove Project.
Bangladesh 1992	Team leader for a business sectors analysis of the garment and textile sector in Bangladesh.
Bangladesh 1992	Evaluation of USHA's Organization, Administration, Management, Financial and Accounting System.
Bangladesh 1992	Workshop on Informal Financing of Small Enterprises.
Bangladesh 1992	Geographical Expansion of Small Enterprises Development Project of Bangladesh Bank.
Bangladesh 1992	RDRS Employee Compensation Package Review.

Project Management Officer (1985-87), Deputy Director Development (1987-88), Director Development (1989-91), Acting Executive Director (1991), Micro Industries Development Assistance Society (MIDAS), Dhaka, Bangladesh. The function of Director Development involved collaborating with the Executive Director in formulating, implementing and resolving overall program management and policy issues. The work included leading a team of 25 highly professional staff engaged in development and research activities such as subsectoral studies, consultancies, information services, action research, and entrepreneurship development training. Responsibilities included preparing and reviewing annual and five year strategic business plans.

Specific duties as Project Management Officer included review and appraisal of relevant project proposals received by MIDAS with special reference to feasibility of the following aspects - economic, financial, commercial, technical and management. Duties also included sponsoring new ideas and formulating new projects relating to PVOs, government agencies and individual entrepreneurs. Also conducted consultancies and research work in related fields such as subsectoral studies, market research studies, socio-economic surveys, base-line surveys, impact evaluation studies and non-farm employment promotion.

Local Consultant, Trade and Industrial Policy (TIP) Reform Programme, Planning Commission, Government of Bangladesh, Dhaka, 1983-1985. This was an IDA funded project conducted by the Bangladesh government. Worked for both Project planning and Identification Unit located in the planning Commission, and the Industrial Investment Promotion Unit located in the Industrial Advisory Centre of Bangladesh (IACB). Identified and promoted potential import substitution and export oriented industries, as well as those who needed BMRE assistance, and training of counterpart staff to work with foreign advisors. Prepared research papers on leather and leather products, footwear, textile finishing, engineering and proposals for BMRE in these and other sectors.

Technical Director, Rehman Chemicals Ltd., Dhaka, Bangladesh, 1981-1983. Responsible for the creation, start up, commissioning and maintenance of the country's first factory for the manufacture of starch, glucose and dextrose. The equipment was supplied by Alfa Laval of Sweden and DDS Kroyer of Denmark. The plant went into commercial operation in November 1982, and runs on a 24 hour basis using indigenous raw materials.

Project Manager, Jurong Engineering Limited, Singapore, 1972-1981. Engaged in engineering and construction of industrial plants including interface with customer, project execution, pre-commissioning, start up operation and maintenance. Clients included large Japanese prime contractors construction large industrial and chemical plants. Job sites were located in Singapore, Malaysia, and the Middle East.

PROFESSIONAL AFFILIATIONS:

Fellow, Institution of Engineers, Bangladesh (IEB)
Member, American Society of Mechanical engineers (ASME)
Life Member, Institute of Business Administration Alumni Association, University of Dhaka
Member, Government of Bangladesh Task Force on "Strategies and Role of Small and Rural Industries."

Appendix C

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Appendix D

LIST OF PERSONS CONTACTED

USAID Mission of Bangladesh

Director
Mr. Richard M. Brown, Mission Director
Ms. Lisa Chiles, Deputy Mission Director

Program Office
Emily B. McPhie, Office of Program

Office of Economics & Enterprise
Mr. Stuart Callison, Ph.D., Director
Mr. Ross Bigelow, Ph.D., Program Economics Officer
Mr. Naushad Faiz, Ph.D., Project Management Specialist
Mr. Najmul Hossain, Ph.D., Private Enterprise Officer
Mr. Azizur Rahman, Ph.D., Program Specialist
Mr. Raka Rashid, Ph.D., Women in Development Specialist

A.I.D./Washington

Mr. Frank Young, Director, ANE/ORA
Ms. Judith Coker Evans, Investment Officer, G/EG/CIS

Government of People's Republic Of Bangladesh

Ministry of Finance
Dr. A.K. Abdul Mubin, Joint Secretary

Bangladesh Bank
Mr. Kamal Uddin Ahmed, Deputy Governor
Mr. Syed Lutful Bari, DGM, Industrial Credit Department
Mr. M. Khuli Khan, DGM, External Audit Division

Ministry of Planning
Mr. Aarif, Division Chief, Industries
Mr. Qasem, Deputy Chief, Industries

Ministry of Industries
Mr. Yousuf Hossainy, Joint Secretary, PIAG Project Director
Mr. K.C. Das, General Manager, Planning Department

Policy Implementation and Analysis Group (PIAG)

Dr. Ronald P. Black, Chief of Party
Dr. C.A.F. Dowlah, National Consultant
Mr. Abdur Rab, Ph.D., National Consultant
Mr. Ahmed Ali, National Consultant
Mr. Colonel M. Azizur Rahman, Consultant

International Executive Service Corps (IESC)

Mr. C.M. Murshed, Country Director/Bangladesh
Dr. Cyril Maynard, Volunteer Executive
Dr. James Thomas, Volunteer Executive
Mr. Oscar D. Hayes, Volunteer Executive
Mr. James Bell, Regional Vice President for Asia, IESC Stamford
Ms. Susan Akerly, Program Analyst, VE Records, IESC Stamford
Ms. Catherine McGrath, Evaluation Group, IESC Stamford
Ms. Kathy Williams, Treasury Department, IESC Stamford

Business Advisory Services Center (BASC)

Mr. Mahbub ul Huque Khan, Executive Director
Mr. Salahuddin Ahmed, Program Manager
Mr. Siddique Ahmed, Program Manager
Mr. Shahabuddin Khan, Chief Program Officer
Mr. Aniruddha Hom Roy, Senior Program Officer
Mr. Sajjad Ahmed Khan, Senior Program Officer
Mr. Hasanur Rahman Chowdhury, Program Officer
Ms. Shahin Akhter, Program Officer

Bangladesh U.S. Business Council (BUSBC)

Mr. Osman Yousuf, Executive Director

Micro Industries Development Assistance Society (MIDAS)

Mr. Abdul Karim, Acting Managing Director
Mr. Anwarul Azim Syed, Director, Development
Zarina Kanjee, WID Cell
Mr. M. Lutfar Rahman Khan, Senior Program Officer
Mr. Golam Sarwar Bhuiyan, Senior Program Officer

Private Sector Banks

American Express Bank
Mr. Rafiquzzaman, Director of Marketing

94

ANZ Grindlays Bank
Mr. Arshadul Hasan, Account Manager

Arab Bangladesh Bank Ltd.
Mr. A. Rahim Chowdhury, President and Managing Director

Bank Indosuez/Bangladesh
Mr. Denis Reynard, Country Manager
Mr. D. Das Gupta, General Manager

Citibank
Mr. Mahesh K. Rao, Vice President and Country Corporate Officer

International Finance Investment and Commerce Bank Ltd. (IFIC)
Mr. S.M. Salahuddin, Executive Vice President
Md. Khalilur Rahman, Assistant Vice President

Industrial Promotion and Development Company of Bangladesh Ltd.
Mr. C.M. Aiam, Managing Director
Mr. Masud Hossain Rizvi, General Manager

Pubali Bank
Mr. M. Mominul Haque, Assistant General Manager

Private Sector Businesses and Associations

American Bangladesh Economic Forum (ABEF)
Forrest Cookson, President (also Macrofinancial Economist, FSRP, Nathan Associates Inc.)

Apex Footwear, Ltd.
Mr. Syed Nasim Manzur, Director

The Asia Foundation
Mr. Kim McQuay, Assistant Representative

Bangladesh Consultants, Ltd.
Mr. Mahbub-ul Haque, Managing Director

Bangladesh Management Development Center (BMDC)
Mr. A.K.M. Nurunnabi Chowdhury, Director

Bangladesh Oxygen Limited (BOL)
Mr. A.H. Khan, Managing Director

Bengal Fine Ceramics Ltd
Mr. R. Maksud Khan, Managing Director

Beximco
Mr. Sohel Rahman, President
Mr. S.M. Kamal, Director, Human Resources

Dhaka Chamber of Commerce and Industry (DCCI)
Mr. A. Rob Chowdhury, President
Mr. Emdadul Haque, Project Manager

Emerging Markets Institute
Mr. Terry M. Chuppe, Executive Director

Fansen Limited
Mr. Md. Salim Khan, Quality Controller

Howladar, Yunus & Co. (HYC)
Mr. M. Yunus FCA, Senior Partner

The Hunger Project
Prof. Badiul Alam Majumdar, Country Director

ICDDRB
Mr. Ali Mahmoud

IDTC Project Phase II Bangladesh Tariff Commission
Dr. Kabir V. Ahmad, Team Leader

IFAS/UNDP
Charles Byron, Chief Technical Advisor to BOI

Independent University, Bangladesh
Mr. Kazi Zahir Uddin
Mr. Kazi Faruque Ahmed

Industrial & Marketing Services Ltd.
Mr. M. Masud Sadeq, Managing Director

Institute of Business Administration
Professor Dr. M. Shamsul Haque, Director

Institute of Development Studies
Mr. Mosharaff Hossain, Visiting Professor

Kay & Que (Bangladesh) Ltd.
Mr. S. Faheem, Director

Kumudini Welfare Trust
Ms. Joya Pathi, Chairman and Managing Director
Mrs. Hajari, Branch Manager, Gulshan

Laboni Dairy Farm
Mr. Saifuddin Ahmed, Proprietor

M.A. Quader Kabir & Co., Chartered Accountants
Mr. M.A. Quader Kabir

Modern Erection Limited
Mr. Jawaherul Ghani, Managing Director

Productivity Services Wing (PSW), Bangladesh Employers' Association
Mr. Md. Nurul Haque, National Consultant
Mr. Pradip S. Chowdhury, Consultant

Rahman Rahman Haq, Chartered Accountants
Mr. A. Hafiz Choudhury, Partner

Renata Laboratories (Bangladesh) Ltd.
Mr. S. H. Kabir, Managing Director

Swanirvar Bangladesh
S.M. Al-Husainy, Chairman of the Executive Committee

Women's Vocational Training for Population Activities
Ms. Rebeca Afrid, Project Director

ZDH/TA Partnership Project
Mr. M. Azizur Rahman, Resident Representative

Donor Agencies

Asian Development Bank
Mr. S.A.B.R. Thalakada, Senior Financial Analyst/Bangladesh

The World Bank
Dr. Shamsuddin Ahmad, Sr., Program Officer/Dhaka
Mr. Charles Draper, Country Program Officer for Bangladesh

Appendix E

LIST OF SELECTED INDUSTRIAL PROMOTION PROJECT IMPLEMENTATION LETTERS

No.	*Date*	*Subject*
1	December 11, 1989	Procedures for use of proceeds under Project Grant Agreement signed August 31, 1989, and information to assist in implementation.
2	February 6, 1990	Implementation of PIAG in cooperation with Ministry of Industries.
3	June 20, 1990	Conditions met for initial disbursement on PIAG component; condition for provision of support staff waived by Mission following BDG written request.
4	September 16, 1990	Implementation of PIAG component.
5	January 27, 1991	USAID Project Officer for IPP advises BDG that he is to be evacuated from Dhaka by directive of Ambassador. Will continue to process project implementation order from A.I.D./Washington.
6	March 19, 1992	Proposed revisions to budget and project outputs of PIAG component.
7	July 26, 1994	Completion date for PIAG component extended from September 30, 1994, to September 30, 1995, in accord with extension requested by the Ministry of Industries.
8	July 24, 1994	Proposed changes in implementation of Small Industries Credit Insurance Scheme (SICIS) component.

Appendix F

EVALUATION METHODOLOGY

This is the first outside evaluation of the Industrial Promotion Project (IPP). It serves as (1) an interim evaluation for the BASC, IESC, and SICIS components; and (2) a post project evaluation for the BUSBC component, completed in 1991. It also occurs near enough to the completion date of the PIAG component that it can serve many of the purposes of an end-of-project evaluation. The evaluation of the IPP was designed to be carried out both in Dhaka and in the United States in the fall of 1994. Because of unavoidable scheduling constraints on the part of the contractor, the Bangladesh phase of the evaluation was carried out in October and November 1994, followed by the U.S.-based portion of the evaluation in January 1995.

The evaluation team employed a combination of methodologies:

- A review of documents, files and data produced by USAID/Dhaka, IPP components (PIAG in particular), CCIs, Bangladesh Bank, World Bank, and A.I.D./Washington, as well as local and international periodicals and other source material.
- Interviews with Mission staff, IPP component staff, BDG officer staff assigned to PIAG, private sector businesses and financial institutions affected by IPP components, World Bank staff, Asian Development Bank, FSRP consultants, and others.
- Review of macroeconomic performance data on the Bangladesh economy published by Bangladesh Bank, the Ministry of Finance, USAID, the World Bank, and a review of data on investments registered with the Bangladesh Board of Investment (BOI) maintained by BOI and reported by DCCI.
- Case studies of 11 enterprises assisted by IESC and 3 enterprises assisted by BASC.
- Estimates of microeconomic impact using financial information from enterprises and economic estimates of value added.
- Illustrative estimates of economy-wide macroeconomic impact using an estimate of a macromultiplier for Bangladesh applied to estimates of valued added at individual enterprises.
- Regular meetings with USAID and IPP staff to discuss interim results, sharpen the focus of the evaluation, and develop useful recommendations.
- Review of and comments on drafts of the evaluation reports.

In general, the various methodologies were used to address four kinds of issues:

- *Conformity with logframe:* Were the IPP programs operating in conformity the purposes goals and strategic objectives of the Mission, as well as with the outputs and deliverables described in various cooperative agreements, contracts and TAPPs?
- *Impact:* What impact are the various programs having, and how can this impact be observed or measured?
- *Sustainability:* First, is the activity producing sustainable benefits? Is the delivery system self sustainable without USAID resources?
- *Alternatives:* Can the objective be achieved more efficiently?

Document Review

In addition to the Mission documents on the IPP, each of the five components has produced an array of documents both for internal use and as outputs or deliverables under the terms of the IPP. PIAG in particular has produced eight major reports and a number of minor memoranda on policy reform issues. PIAG's documents were reviewed for the quality of their analysis and to assess consistency with reform priorities expressed by BDG and the Mission.

BASC program documents were reviewed and compared with information on training course offerings from CCIs and other sources.

The team reviewed the legal documents relating to IPP implementation and the internal documents used by the component programs including workplans and periodic reports. IESC opened its VE assignment case file to the evaluation team. Excluding contractual documents, internal files and records, which have not been included, Appendix C contains a list of documents reviewed by the evaluation team.

Interviews

A number of interviews and discussions were held over the course of the field work in Bangladesh in October and November 1994. Whenever possible, two members of the evaluation team were present for key interviews. More than 75 interviews were conducted in both Dhaka and the United States. The directors and senior staff of each component were interviewed, including the now retired director of BUSBC. Interviews in the United States were conducted in person and by telephone by one member of the evaluation team, following up on issues related to IESC's home office in Stamford, BUSBC's Virginia office and the Washington office of the MSEDP regarding the SICIS program.

For the PIAG component the team interviewed the PIAG contractor staff, MOI staff assigned to PIAG, other MOI staff, BDG officers in the Ministries of Planning and of Finance and in Bangladesh Bank, private sector businessmen affected by reforms, representatives of CCIs and other private sector business organizations, noted academic proponents of economic reform, contractor staff of other USAID projects (FSRP), and the staff of USAID, World Bank and Asian Development Bank. Interviews with BDG officers, businessmen, and other donors, and even parties unrelated to PIAG focused on eliciting responses to questions about PIAG's recognition, reputation and effectiveness, for example:

- Do you know about PIAG? If so how?
- What is your opinion of their activities? Their reports?
- What is your opinion of their effectiveness?
- What do you think about BDG progress on policy reform?
- Do you think PIAG's activities help the policy reform process?

For the SICIS component the team's interviews included senior officials in the Ministry of Finance and Bangladesh Bank, managing executives in private sector banks, both local and international, the senior technical advisors with the Financial Sector Reform Project, management at two nonbank financial institutions in Dhaka, staff of the Dhaka Stock Exchange, OEE staff working with the SICIS component, and Ms. Judith Evans of A.I.D./Washington, MSEDP. Interviews centered around lending to SMEs and reaction to the two loan guarantee programs offered in Bangladesh. Questions included the following:

100

- Do you know about the SICIS program and Bangladesh Bank's SILG program?
- Have you decided to apply? Why or why not?
- Which features of the two programs does your bank prefer?
- Has your bank made loans to SMEs in the past?
- What are the problems associated with lending to SMEs?
- Would you like more information about the SICIS program?

For the IESC component the interviews were conducted at five levels within IESC, first with the Country Director in Dhaka, second with two members of the Advisory Board for IESC/Bangladesh, third with four IESC Volunteer Executives who were in country on assignments at that time, fourth with owner/managers of eleven firms that had been clients of IESC assignments, and fifth with the IESC management at its headquarters in Stamford, Connecticut. The team also asked leading businessmen and CCI officers for their opinion of IESC's efforts and impact.

For the BASC component, the team interviewed BASC officers, MIDAS officers, clients and participants in BASC's programs, other providers of services similar to those that BASC offers, as well as Mission staff and staff of other IPP components that had dealings with BASC.

For the BUSBC component the evaluation team interviewed the former executive director once in Dhaka and again in his Virginia office. The team also interviewed individuals who were the Bangladesh directors of U.S.-based corporate members of BUSBC, ABEF members, and A.I.D. staff (both Dhaka and Washington, D.C.) familiar with BUSBC's activities.

Review of Macroeconomic Performance Data

The evaluation required a review of macroeconomic performance data, and current data was difficult to obtain during the October-November, 1994 visit. Current data was especially important because of disagreements (between World Bank and BDG's measurements) over the extent of changes in some key macroeconomic variables such as GDP growth, investment, and employment. The disagreements had not been completely resolved at the time this evaluation's release, but better data did become available early in 1995 and was incorporated into the evaluation.

Case Studies and Microeconomic Impact

The IESC files contain "Post Project Reviews" (PPRs) for 34 VE assignments completed as of October, 1994. For each assignment, the evaluation forms require answers completed by the VE, the client and the CD. These project evaluation forms must be completed before the VE departs. A second, follow-up evaluation is completed by the CD and the client some 6-9 months later, but only for a sample (about one in three) of completed projects. The IESC forms ask about impact on sales, costs, productivity, profits, and employment (not employment of women specifically, however). The questions are formulated for "Yes" or "No" responses only. The evaluator selected files for twelve assignments (eleven clients) for the purpose of estimating the financial impact on the concerned enterprise and the economic impact on society. Interviews were used to supplement information in IESC files regarding the extent of any changes in output, sales, employment, or investment that the enterprise had experienced as a result of implementing the VE's recommendations. In addition, the evaluators developed a supplemental questionnaire to obtain quantitative information including that specifically needed by the Mission, such as number of women employed (see Annex F-1).

Interviews were informal, but the evaluator probed for quantitative information. Results of the interviews and research were written up in a case study format. The case studies appear in Appendix K.

Information from clients was used to estimate the increase in value added (income) to all factors of production that occurred as a result of IESC assistance. Information regarding increase in sales, cost savings or employment was adjusted to reflect increases in: 1) payments to labor or, 2) increases in profits or return to owners/managers. Information about increases in employment were valued at an average annual wage suggested by the owner. Estimates of additional income paid to workers was combined with estimates of additional income to owners to create an estimate of a total increase in value added annually at the enterprise. One time only expenditures for investment were recorded separately but ignored for purposes of estimating the increase in annual value added. The resulting estimate of additional value added annually represents the first round impact of the VE assistance. The impact from respending of the new income was estimated using a macromultiplier.

Macroeconomic Impact of IESC Assistance

Part of the additional income earned by workers and owners at the successful enterprises will be respent several times within the economy, creating additional income and jobs. Economists call this the "multiplier effect." No recent sophisticated estimates of the macromultiplier for the Bangladesh economy were available to the evaluation team, so rough estimates were made using available information and reasonable assumptions. Not all income is respent within the economy. Some is saved and some is spent on imported items. To account for these leakages, the macro or economy-wide multiplier is calculated by taking the reciprocal of the marginal propensity to save plus the marginal propensity to import. The marginal propensity to save is also equal to 1 minus the marginal propensity to consume. No recent studies of these ratios have been made for Bangladesh, but experts agree that for labor the marginal propensity to consume is quite high, probably 0.9, while the marginal propensity to import is approximately 0.2. The multiplier for wage income, therefore, is probably as high as 3.3, [1/(1-0.9+0.2)] meaning that an additional dollar of income paid to a worker in Bangladesh will largely be respent in the economy, producing an economic impact more than three times the size of the initial increase in income.

In the case of profits, the multiplier is probably less. Assuming a marginal propensity to consume of 0.70 and a marginal propensity to import of 0.4 results in a multiplier of 1.43, [1/(1-0.7+0.4)]. In the garment and footwear industries, information suggests that the labor component was about 60 percent of the value added in Bangladesh, 40 percent representing the return to owner/managers. Only income to economic factors, i.e. labor, capital, in Bangladesh results in value added in Bangladesh. Using this representative division of income for the garment and footwear industries results in a weighted average multiplier of 2.5, [(3.3*0.6)+(1.4*0.4)], which is accurate enough to use in gauging the full macroeconomic impact of the first round increases in income. The estimated first round increase in value added was $5.36 million annually for the enterprises including the expanded Apex Footwear. As this new annual income is respent it will generate more income throughout the economy, estimated at a total of $13.41 million, or 2.5 times more than the original increase in income.

Economic Impact of BASC Assistance

An approach similar to that used for IESC was tried in the case of SMEs assisted in one way or another by BASC. However, neither BASC officers nor the assisted clients were able to provide quantitative estimates of the impact of BASC's assistance. This stems partly from the fact that BASC has not followed a methodical program of asking clients about impact and following up with clients after they participate in training. Three partial prototype case studies were prepared, and these appear in Appendix L.

Economic Impact of PIAG Advocated Reforms

Estimates of the potential impact of selected regulatory reforms were made using economic logic rather than econometric methods, which the scarcity of good data would not justify in any case. As a first step each reform was classified according to the main type of impact it was likely to have on economic agents, whether it was likely to open completely new opportunities previously prohibited, reduce the transaction costs associated with certain investment or activities, improve market efficiencies, or simply improve the climate for investment and private enterprise development. For five activities where some information was available, the evaluators interviewed PIAG staff and private businesses affected by the reforms to develop illustrative estimates of economic impact.[1]

Reforms either remove an absolute barrier to investment, reduce transaction or operating costs, improve the functioning of markets, correct a bias created by regulations, or simply improve the investment climate. The impact of some reforms is easier to estimate than for others.

- **Reform 1. Automatic BOI registration** – Prior this reform, registration of a new investment project was a mandatory and time consuming process, especially for foreign investors. Simplification of registration was a goal of the FIAS consultancy in BOI and one of the reforms advocated by PIAG. After procedures for automatic registration were introduced in March, 1994, approximately Tk 25 billion ($600 million) of investment projects were registered with the Board of Investments in the next two and a half months. The highest **yearly** figure prior to reform was Tk 1.7 billion ($43 million) for all of 1993. By the end of 1994, new registrations had settled back to a rate of Tk 1.6 billion ($40 million) per month.

  Economically, the faster registration process saves investors time and so reduces up-front investment cost. The economic impact value was estimated based on assuming: (1) annual registration equal to $480 million per year, (2) 10 percent of registrations proceed to actual project construction, (3) average time saved by the new process is 2 months, 4) the discount rate for the time value of capital equals 1 percent per month. Under these assumptions, the gain to the Bangladesh economy from the improved registration process will be about $1 million annually at current investment levels. The calculation involved is ($480 million/yr.*10%*12%*2/12).

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[1]Table 2-1 in Chapter 2 lists the 11 regulatory changes selected by PIAG and describes generally how each reform would affect the broader economy.

- **Reform 6. Increased Cash Compensation to Local Fabric Producers** -- This reform proposal would increase cash compensation to local fabric producers from 15 to 25 percent of the value of product sold to ready-made garment exporters in lieu of duty drawback. This program is designed to correct a bias against local suppliers caused by anomalies in the Bangladesh tariff structure as yet uncorrected. Its impact will be positive for Bangladesh export earnings, but the immediate impact is not likely to have much impact on employment and value added by local fabric producers who already produce for the local market and will simply shift production to the export market if this incentive is provided. No major impact on employment and value added to GDP is projected.

- **Reform 7. Reduced Tariffs on Leather** -- Bangladesh's leading exporter of finished leather products has invested $3 million in an expansion program that will enable it to increase its annual shipments from $5 to $10 million dollars. The decision to invest would not have been made if Bangladesh had not reduced the tariff on raw leather for shoe soles from 60 percent to 10 percent. The IPP project had earlier provided the technical assistance of an IESC VE volunteer to this producer prior to this new investment. The new plant will create approximately 400 new jobs, including 350 for women.

- **Reform 2. End SEC Authority over Internal Sale of JV Shares** -- Several foreign joint ventures were able to transfer ownership of shares to Bangladeshi partners in an expeditious manner. This reform did not create any new jobs directly, but without it some Bangladeshi partners would not have been able to take over operating control and jobs would likely have been lost. No impact value was estimated.

- **Reform 10. Convertibility for Capital Account Transactions** -- The full impact of this reform is immense, and it has a catalytic effect in combination with the other reforms. Convertibility is considered a *sine qua non* for triggering a significant increase in foreign private sector capital inflows. Preliminary estimates indicate that direct investment in Bangladesh increased from $130 million in 1992 to $1.3 billion in 1994 with expectations for even more investment growth in 1995. This has allowed GDP to grow at a rate of 10 percent, Bangladesh's first double digit growth rate in many years. Estimates of the inflow of foreign portfolio capital into Bangladesh range from $50 to $150 million. Such funds almost never flow into a country that has not offered foreign investors full convertibility for capital transactions.

Meetings and Draft Reviews

The evaluation team participated in multiple meetings with the Mission and managers of the various IPP component programs. All reviewers were provided with first drafts of the sections of the evaluation report relevant to them for comment. Comments received were used to correct and revise drafts wherever the evaluators felt necessary.

Annex F-1

Draft Supplementary Evaluation Form for Obtaining Quantitative Information on the Impact of Technical Assistance to Bangladesh Enterprises

Name of Company

Name of Volunteer Executive

Dates of Visit

Your own (the client's) estimation of any changes in your operations since the VE's visit that can be attributed to your successful implementation of the VE's recommendations or assistance:

	Before	After
New Jobs Created?		
Number of jobs created		
Number of jobs for women		
Average wage for new jobs		
Impact on Production or Sales?		
Sales		
Production		
Impact on Costs?		
Impact on Annual Net Income before Taxes?		
New Investment?		

New Investment ________ in ________
Amount (Dates)

Appendix G

POLICY REFORM MATRIX MATERIALS FOR PIAG

116

Exhibit G-1. Accelerating Industrial Development: Matrix of Proposed Policy Actions (July 4, 1994)

PIAG

WORKING PAPER

ACCELERATING INDUSTRIAL DEVELOPMENT

(Matrix of Proposed Policy Actions)

4 July 1994

Policy Area/Objectives	Current Problems/Status; Recent Measures Taken	Further Actions Needed: Specific Recommended Measures	Agency or Organization Responsible for Action
1. Accelerate industrial investment	a. Many of the policy area objectives in this matrix are mutually supportive and every one is supportive of the objective of accelerating industrial investment. From the standpoint of industrial development, however, an acceleration in industrial investment is the most direct and critical challenge facing the nation today.		
	b. The World Bank notes that Bangladesh has historically had very low investment rates, averaging around 12 percent of GDP. This is the lowest domestic investment rate in South Asia where in 1990, Nepal's domestic investment rate was 18 percent of GDP, India's was 23 percent, Pakistan's 19 percent and Sri Lanka's 22 percent. In East Asia, the domestic investment rates in 1990 were much higher, eg., 39 percent in China, 36 percent in Indonesia and 37 percent in Thailand. The recently submitted Government budget states that the current investment rate in Bangladesh is 14.5 percent of GDP and that this is to be immediately raised to 16 percent and eventually to 20 percent of GDP. Foreign investment in Bangladesh is negligible, according to the Asian Development Bank, averaging about $2.6 million per year between 1987 and 1992. During this same period, Pakistan had an average of $260 million foreign investment per year.	i. Bangladesh needs to achieve an investment rate of at least 18 percent of GDP if it is to achieve a minimum desirable growth of six to seven percent per year. For increasing overall investment in Bangladesh, increases in both public and private investments -- as shares of GDP -- need to be brought about.	• Board of Investment (BOI), Bangladesh Export Processing Zone Authority (BEPZA), Bangladesh Small and Cottage Industries Corporation (BSCIC) and Government executing agencies for public investment
	c. Except for the regulated sectors, "on paper" no controls remain on private investment outside the reserved list. In practice, however, investment controls do remain due to regulatory functions of industrial promotion agencies and for some other reasons.	i. Remove any remaining controls on foreign investment (e.g., in pharmaceutical and ready made garments industries).	• Cabinet Division and the Ministry of Health
		ii. Remove existing restriction on imports of second-hand or reconditioned machinery requiring certification that it has a minimum economic life.	• Ministries of Industries and Commerce
		iii. Do not impose restrictions on financial institutions' financing of particular industries. In this connection, remove the Industrial Policy provision which discourages bank financing of industries on market saturation grounds.	• Ministry of Industries and BOI
		iv. Bring about a decisive improvement in customs clearance of goods by engaging the services of international agents to perform offshore duty assessment with import preshipment inspection.	• Ministry of Finance and the National Board of Revenue (NBR)

Policy Area/Objectives	Current Problems/Status; Recent Measures Taken	Further Actions Needed: Specific Recommended Measures	Agency or Organization Responsible for Action
	d. The Board of Investment is being reorganized and structured to be mainly a promotional body -- eliminating many, if not all, of its regulatory functions. Beginning 1 March 1994, the BOI eliminated the requirement for documentary proof that an investment was in progress prior to registering new companies and the registration form was substantially simplified. It is also confining recommendations on imported input requirements for incorporation in new industrial "passbooks" to restricted import category items. The Government announced the elimination of requirements for the inclusion of unrestricted goods in industrial passbooks. Old passbooks however still have all industrial inputs listed and the Customs authorities are not recognizing the announced government liberalization and are still asking for BOI approval for the import of unrestricted goods.	i. The Chief Controller of Imports and Exports (CCIE) should issue new passbooks to holders of the old passbooks which eliminate unrestricted categories, or the National Board of Revenue (NBR) should issue a Statutory Regulatory Order (SRO) which invalidates listings of unrestricted products in passbooks.	• CCIE and NBR
		ii. Take away from the BOI the functions of approving terms for private foreign loans outside a range and of approving technology transfer related payments of industrial firms.	• Ministry of Finance and the Bangladesh Bank
		iii. Establish transparent and well defined guidelines about which industries need clearance on environmental grounds and about the procedures for such clearance. Similar guidelines should be published for regulating industries on other grounds such as public health and national interest.	• Environment Department of the Ministry of Environment
		iv. Provide BOI more authority to carry out its facilitation functions for investors. Returning the Board to an enhanced Ministry of Industries could be one possible way of accomplishing this.	• Cabinet and Establishment Divisions and the Ministry of Finance
		v. Remove any remaining regulatory functions from the BOI (eg., issuing employment contracts incorporating BOI-approved remittances of expatriate employees salaries), making it a purely promotional agency.	• Cabinet Division and Ministry of Industries
	e. The Government has recently withdrawn the value added tax from machinery but the advance income tax is still being collected from importers of machinery. Also, a 2.5 percent import permit/letter of credit authorization (LCA) fee is payable on such imports, if the industries are not located in underdeveloped areas.	i. The advance income tax and the import permit/LCA fee on fixed capital serve to increase investment costs and discourage further investment -- both should be removed.	• Ministry of Finance and National Board of Revenue
	f. Three other areas that need attention if private investment is to be accelerated are: - Accelerating legal reform - Strengthening the financial system - Developing an efficient labor market		

109

Policy Area/Objectives	Current Problems/Status; Recent Measures Taken	Further Actions Needed: Specific Recommended Measures	Agency or Organization Responsible for Action
• Accelerate legal reform	g. A congenial legal environment is lacking for private sector business. Legal reforms are needed importantly and specifically to ensure enforcement of contracts, for the resolution of disputes and for orderly exit of unprofitable business activities. The Government has initiated significant work for reform of the general legal system.	i. Expeditiously finalize and enact the amendments to the Companies Act, 1913, the Bankruptcy Act, 1920, the Foreign Investment Act 1980, and laws relating to patents and trademarks.	• Ministry of Law, Ministry of Commerce and Ministry of Industries
		ii. Incorporate in general corporate law and in the Financial Loan Courts Act (Act 4 of 1990) provisions which will strengthen contract law, e. g., reasonable limitations should be placed on the adjournment and appeal processes, and outstanding awards should incur interest. At the international level, Bangladesh should accede to the UN Convention for the Enforcement of Foreign Arbitral Awards (the New York Convention) to complement its existing accession to the International Convention for the Settlement of Investment Disputes (ICSID).	• Ministry of Law
		iii. Other pending legislation (e.g., the laws to provide the Board of Investment more authority to promote and support industrial development and to establish a Judicial Training Institute) should be accelerated.	• Ministry of Law and BOI
		iv. Revise the Admiralty Act of 1861 to give proper protection to exporters and importers, including those by air and land as well as marine shipment.	• Ministry of Law and Ministry of Shipping
		v. Update the statutes affecting land transfer and mortgaging to facilitate the processes of creating title and securing other interests at reasonable cost. These have become acute impediments to modern business dealings. False titles abound and mortgages are often unregistered to avoid high charges. Correcting this situation requires modifications to the 1882 Land Transfer and Stamp Acts and the 1908 Registration Act. Further the land register system is in a chaotic state and requires a major overhaul including the introduction of modern record-keeping technology.	• Ministry of Land and Ministry of Law
		vi. Make legislation to empower commercial banks to engage in financing equipment leasing (as occurred in India in 1984).	• Ministry of Finance, Bangladesh Bank and Ministry of Law

110

Policy Area/Objectives	Current Problems/Status; Recent Measures Taken	Further Actions Needed: Specific Recommended Measures	Agency or Organization Responsible for Action
		vii. Upgrade the legal system by providing the judiciary (1) greater autonomy and independence -- this requires the repeal of the 1975 amendments to Articles 115 and 116 of the constitution, (2) more manpower with better management and judicial training -- the establishment of the proposed judicial training institute and practicing law institute could be steps in this direction, (3) modernize court facilities and equipment -- particularly, introduce modern information technology and (4) establish a permanent administrative law reform commission to rationalize existing rules, regulations and procedures.	• Ministry of Law, Ministry of Commerce and Ministry of Industries
• Improve the financial system	h. Despite considerable financial reform recently, interest rate deregulation is not yet complete and flexible, and controls remain on some types of lending. Serious problems remain in the financial sector due to a spread between deposit and lending rates which is too wide, excess liquidity of banks reflecting inefficiency, large continuing losses of the nationalized commercial banks and the need for resolving outstanding large bank debts of some sectors such as jute.	i. Withdraw, relax or rationalize, as appropriate, the remaining central bank controls on personal loans against the security of non-resident foreign currency deposits and foreign currency accounts and shares; bank advances for hire purchase for general trading purposes; and opening import letters of credit for loan defaulters.	• Ministry of Finance and the Bangladesh Bank
		ii. Quickly phase out the government-directed credit to the jute sector through the nationalized commercial banks.	• Ministry of Finance
		iii. Remove the remaining interest rate bands for loans to agriculture, exports and small and cottage industries.	• Ministry of Finance and the Bangladesh Bank
		iv. Encourage the entry and growth of private banks to make the banking operations more competitive.	• Ministry of Finance
		v. Expedite the process of privatizing the Rupali bank and take meaningful steps towards privatizing other nationalized banks.	• Ministry of Finance
		vi. Further strengthen the management and staff of the Bangladesh Bank so that the Bank can more effectively carry out prudential regulation and supervision of the country's banking system, as well as concomitant enforcement requirements.	• Bangladesh Bank
	i. A credit guarantee scheme with an initial funding has been launched by the MOF / Bangladesh Bank (BB) to assist retired and retrenched public sector employees to invest in small industries. Likewise, the government, in its latest budget submission, provides a Tk 4.65 billion loan guarantee for the poor -- particularly for women in rural areas.	i. Expand the credit guarantee scheme for all small industrial investors with donor support.	• Ministry of Industries and Ministry of Finance

Policy Area/Objectives	Current Problems/Status; Recent Measures Taken	Further Actions Needed: Specific Recommended Measures	Agency or Organization Responsible for Action
	j. The extremely low level of savings in Bangladesh has hindered the formation of indigenous promoter capital. This has also limited the availability of locally borrowed capital . The emphasis therefore has been on borrowed overseas capital, as exemplified through the IBRD credit provided through the Bangladesh Shilpa Bank (BSB) in the late seventies and up to the mid-eighties; the continued aid dependence for the government's investment projects; and the strong advocacy for attracting foreign investment.	i. Channel increasing amounts of foreign aid and loans either directly through private investors, or indirectly through private financial institutions. ii. Give the financiers adequate control over project selection, sanctioning, and disbursing.	• Ministry of Finance, fund providers, channeling agencies, and Bangladesh Export Processing Zones Authority • Ministry of Finance and Ministry of Law
	k. Loan courts have been established. The Bankruptcy Act has been redrafted.	i. Formulate enforceable legal codes to ensure responsible financial behavior and discipline, both on the part of the borrower and the sanctioning agency; and establish effective institutions for their enforcement. For example, members of the board of directors of banks should be held legally responsible for their decisions and actions.	• The Ministry of Law
	l. Some measures undertaken recently to improve the capital market include (1) the establishment of the Securities and Exchange Commission, (2) lowering of the interest rates on government-floated savings instruments, (3) withdrawal of several special levies on dividends, (4) allowing foreign investors to purchase securities traded on the Dhaka Stock Exchange, (5) exemption of taxes on capital gains resulting from share transactions, (6) allowing remittances of capital gains by foreign investors as well as repatriation of capital invested in stocks and shares quoted on the Stock Exchange, (7) allowing remittances of dividends and profits without requiring prior permission of the Bangladesh Bank and without tax clearance but with withholding of taxes, if any, in the company accounts, and (8) issuing and transferring company shares without requiring prior Bangladesh Bank approval.	i. The government is the owner of the largest proportion of the manufacturing capital in the country. It should enhance disbursement of this capital to both indigenous and overseas investors through such means as the stock market, debenture financing, and stock options for employees. It would also be beneficial to the development of the stock market if the government would devest its shares in publicly traded companies. A recent government decision to off-load Tk 1,000 million worth of shares in gas and oil marketing companies should be implemented on schedule early next year. ii. It is expected that an active stock market in Bangladesh will initially be dominated by speculators rather than investors, because of the low investment climate. Effective anti-speculation mechanisms must therefore be put in place. iii. Maintain an accessible and current database showing the capitalization, leverage, liquidity, and earning powers of all business units listed with the stock exchange.	• Privatization Board, Ministry of Finance, Ministry of Industries, Ministry of Jute, Ministry of Textiles, the Dhaka Stock Exchange, Board of Investment, and Cabinet Division • Securities and Exchange Commission, Dhaka Stock Exchange, Ministry of Law, Ministry of Finance • Dhaka Stock Exchange, Bureau of Statistics, Ministry of Commerce, and chambers of commerce and industry
• Develop an efficient labor market	m. The labor market in Bangladesh is characterized by structural inefficiencies due to shortcomings in the labor laws, weaknesses in enforcement of the labor laws, centralized wage determination and minimum wage legislation, and excessive Government interference in labor disputes. The labor market inefficiencies are contributing to increases in wage costs unmatched by firm profitability or labor productivity and to unhealthy labor management relations. A Labor Law Commission has reviewed the labor law problems and submitted a report to the government..	i. Repeal the regulation that allows retrenched or terminated workers of an establishment to become and remain members or office bearers of that establishment's trade union. ii. Reduce the multiplicity of trade unions in an establishment to only one with majority worker support. iii. Cease the current, centralized practice of determining wages for public sector workers without regard to profitability of firms and the productivity of their workers.	• Ministry of Labor and Manpower and the Ministry of Law • Ministry of Labor and Manpower and the Ministry of Law • Ministry of Labor and Manpower

Policy Area/Objectives	Current Problems/Status; Recent Measures Taken	Further Actions Needed: Specific Recommended Measures	Agency or Organization Responsible for Action
		iv. Do not impose a national minimum wage for private sector workers.	• Ministry of Labor and Manpower
		v. Government should cease intervening in labor disputes outside the procedures prescribed by the labor law. Legal loopholes which allow excessive government interference should be removed.	• Cabinet Division and Ministry of Labor and Manpower
		vi. Cease the Government practice of reaching wage agreements with unions or their national federation, the Sramik Karmachari Okya Parishad (SKOP), by-passing tripartite consultations.	• Cabinet Division and Ministry of Labor and Manpower
		vii. Enhance enforcement of labor legislation by strengthening the Labor Department, further streamlining labor court procedures, penalizing illegal strikes and lock-outs and ensuring job security.	• Ministry of Labor and Manpower and Ministry of Law
		viii. Amend the current legal requirement, seldom met in practice, for joint reference by labor and employer of disputes to labor courts for adjudication.	• Ministry of Labor and Manpower and Ministry of Law
		ix. Amend the labor law appropriately to remove the lack of a clear definition of the basis for double pay for overtime -- which should exclude annual bonuses.	• Ministry of Labor and Manpower and Ministry of Law
		x. Impose appropriate time limits on progress between most steps of the dispute resolution process to accelerate dispute resolution and increase the insufficient time limit specified for the tripartite conciliation step to give reasonable scope for this step to have success.	• Ministry of Labor and Manpower and Ministry of Law
		xi. Allow the provision for employment of workers for fixed term contracts in addition to the presently allowed employment on permanent and casual, i.e., on a daily basis.	• Ministry of Labor and Manpower and Ministry of Law
		xii. Make public the Labor Law Reform Commission report to elicit general public reaction.	• Prime Minister's Secretariat or Cabinet Division

Policy Area/Objectives	Current Problems/Status; Recent Measures Taken	Further Actions Needed: Specific Recommended Measures	Agency or Organization Responsible for Action
2. Spur the introduction of new and improved technology, and management and marketing skills.	a. Nothing, perhaps, accelerates industrial development more than the introduction of new technology, and management and marketing techniques and capabilities. The only way to do this on a fast and large scale is by bringing it in from outside. It is new technology and management and marketing skills that rapidly increase the "size of the pie". Unfortunately, local industry is often opposed to permitting, much less encouraging, foreign technology and management and marketing skills into the local market place because of a parochial view that the size of the pie is fixed -- and thus they will get less. Nothing is further from the truth. A recent example of what technological input can do to spur an industrial activity is given by a dramatic (near two-fold) increase in labor productivity in a new export-oriented shoe factory (Apex Footwear) when it received the help of a USAID supported foreign technical advisor.	i. Remove discriminatory restrictions on foreign investors' importation for commercial purposes, and on local residents and foreign investors for importation through direct payments from bank accounts abroad.	• Ministry of Industries, Cabinet Division, Ministry of Health and the Ministry of Commerce
		ii. Seek donor support to initiate a long term grant and loan program aimed at aiding private companies in technology acquisition and mastery.	• BOI, the Bangladesh Small and Cottage Industries Corporation (BSCIC), the Ministry of Science and Technology and USAID
		iii. Seek donor support to initiate a program of industrial loans for Bangladesh-foreign partner joint ventures. This could be coupled with a program element that provides grants to work on new technological developments.	• Ministry of Industries, BOI, BSCIC, the Bangladesh Export Processing Zones Authority (BEPZA) and the World Bank or the Asian Development Bank
		iv. Remove remaining controls on the use of foreign exchange for payments for technical know how, and technical assistance and consulting fees.	• Ministry of Finance and Bangladesh Bank
	b. Every productive venture, irrespective of its level of capital intensiveness, depends on technology. The kind and level of technology required by an enterprise will of course vary widely. Technology is embodied in (1) the machinery, tools, equipment and processes used in production, and (2) the knowledge, techniques and skills brought to bear upon the production process. The use of inappropriate kinds or levels of technology abounds in Bangladesh.	i. Remove excessive protection to domestic textile and other industries, which has blunted incentives for use of more efficient technology.	• Ministries of Industries and Finance
		ii. Establish a mechanism of according social recognition and financial incentives (somewhat in the manner of the existing practice of installing Commercially Important Persons) to technology leaders among the local entrepreneurs.	• Ministry of Finance, in collaboration with the various chambers of commerce and industry.
		iii. Create an information center which will make information available on technology, equipment, suppliers, prices, terms of delivery, and government policy incentives.	• Ministry of Industries in collaboration with the Ministry of Science and Technology, and the chambers of commerce and industry.
3. Promote export led growth	a. The local market is not large enough, and certainly does not have sufficient room for expansion, to accommodate a rapid acceleration of industrial development. The only viable option, and one that should be aggressively pursued, is to accelerate expansion into export markets.	i. The most critical step needed to promote the export-led growth strategy is to accelerate import and foreign exchange liberalization to remove the anti-export bias of the existing restrictions in these areas.	• Ministry of Commerce, Ministry of Finance and the Bangladesh Bank
• Enhance market competitiveness and rationalize industrial incentives through import liberalization.	b. Progress has been made in the substantial elimination of quantitative import restrictions and some rationalization of import tariffs. Currently import QRs remain on 55 four-digit HS items because of trade reasons. For most products, customs duty rates are now compressed into a range of 7.5 to 100 percent.	i. Eliminate remaining trade (i.e. protection) related quantitative restrictions on inputs of textiles, sugar, pharmaceutical, steel and other products.	• Ministry of Commerce, Ministry of Finance and Tariff Commission
		ii. Lower the highest tariff to 30 percent within a reasonable time span -- say two years.	• Ministry of Finance

Policy Area/Objectives	Current Problems/Status; Recent Measures Taken	Further Actions Needed: Specific Recommended Measures	Agency or Organization Responsible for Action
		iii. Phase out the official tariff values for duty assessment and contract international agents to perform offshore duty assessment in association with import pre-shipment inspection.	• Ministry of Finance and the National Board of Revenue
• Enhance market competitiveness through exchange liberalization	c. A liberalized exchange should promote exports if factors holding up the value of the taka are corrected (liberalizing imports and accelerating the development program). There have been recent relaxations on exchange controls but more could be done.	i. Free private borrowing from abroad from any remaining control -- i.e, approval by BOI.	• Ministry of Finance and Bangladesh Bank
		ii. Allow exporters to operate their accounts with retained foreign exchange with the facility of both-way convertibility.	• Ministry of Finance and Bangladesh Bank
		iii. Allow exporters operating on back-to-back letter of credit basis to import with cash foreign exchange up to their retained foreign exchange benefits -- five to ten percent of exports.	• Ministry of Commerce and Bangladesh Bank
		iv. Allow access to foreign exchange for all imports without the requirement for L/Cs.	• Ministry of Commerce and Bangladesh Bank
		v. Extend the facility of import against direct payments abroad to all investors -- foreign and domestic. (Currently this facility is available to only Bangladeshi nationals living abroad.)	• Ministry of Finance and Bangladesh Bank
		vi. Considerably relax -- at least double -- the current ceilings on foreign exchange available for personal trips abroad. Withdraw foreign exchange restriction altogether for business travel -- or at least fix their foreign exchange entitlement well above those for personal trips.	• Ministry of Finance and Bangladesh Bank
		vii. Lift the control on capital transfers and make the taka also convertible on the capital account. Put the taka on a free float against other currencies or at least use reference rates with a wide band within which banks can vary the exchange rate.	• Ministry of Finance and Bangladesh Bank

Policy Area/Objectives	Current Problems/Status; Recent Measures Taken	Further Actions Needed: Specific Recommended Measures	Agency or Organization Responsible for Action
• Other export promotion measures	d. Recent measures introduced to improve export policy include (1) providing full exemption of duty on machinery imports for 100 percent export-oriented industries without bank guarantees -- including those outside export processing zones, (2) providing substantial exemption of duties on machinery import for export-oriented industries, that export at least 70 percent of output, with bank guarantees, (3) providing 25 percent cash compensation to producers of ready made garments for export in lieu of duty drawback and allowing this same facility to direct exporters of other textile products, (4) providing full exemption of duties on imports of raw hides and skins for use in export products when companies provide bank guarantees that the imports will be re-exported as part of their export product, (5) providing export-oriented companies, who are not operating on back to back LCs, with an advance import facility of up to four months' requirement, (6) expanding the coverage of flat-rate duty drawback, (7) access to bonded ware houses for all types of export activities and (8) relaxation of the domestic value addition restriction for ready made garments exporters. Further export policy improvements are necessary in view of low general export growth, for products other than ready-made garments, the narrow export base and slow export diversification.	i. Remove existing bans and restrictions on export (1) on consignment, (2) through entrepot trade and (3) of a number of agricultural and manufactured products.	• Ministry of Commerce, Ministry of Finance and the Bangladesh Bank
		ii. Expand the duty-drawback system at flat rates on a continuous basis and at a satisfactory speed -- say by 50 new product areas per month.	• Ministry of Finance and, particularly, the Duty Exemption and Drawback Office (DEDO) of the Ministry
		iii. Extend the duty exemption facility, on machinery and spare parts, to other than 100 percent export-oriented units on a pro rata basis.	• Ministry of Finance and, particularly, the Duty Exemption and Drawback Office (DEDO) of the Ministry
		iv. Introduce more flexible exchange rate management.	• Ministry of Finance and the Bangladesh Bank
		v. Generalize the reintroduction of a cash compensation system for direct and indirect exporters who get inadequate tax offset on imported inputs or compensation for protection on domestically produced inputs.	• Ministry of Finance and the Bangladesh Bank
		vi. Withdraw advance income tax from exporters on machinery imports and other inputs.	• Ministry of Finance
		vii. Abolish 2.5 percent import permit/LCA fee on imports for export.	• Ministry of Finance
		viii. Reduce duties to low levels on spare parts, raw materials for packaging and refrigerated vans used in the frozen fish industry.	• Ministry of Finance
		ix. Investigate the reasons for slow utilization of the Export Credit Guarantee Scheme and take necessary appropriate steps to improve its utilization, including provision of a subsidy on the premium cost for the insurance coverage.	• Ministry of Finance, Bangladesh Bank, BOI and the Export Credit Guarantee Scheme Cell in Sadharan Bima Corporation
		x. Accelerate the application of the bonded warehouse scheme to other areas of industry.	• National Board of Revenue

Policy Area/Objectives	Current Problems/Status; Recent Measures Taken	Further Actions Needed: Specific Recommended Measures	Agency or Organization Responsible for Action
4. Speed up the privatization process.	a. This is the most effective way to eliminate the huge public enterprise losses and their concomitant burden on the general tax payer. It will also improve the efficiency of these enterprises, improve their products and make them more stable employment generators.	Key steps needed to accelerate the privatization process are: i. Speed up privatization by (1) setting more ambitious targets with privatization dates, including the sale of non-industrial enterprises, (2) eliminating bias against profitable firms, and (3) making the privatization process -- valuation, bidding and contracting -- adequately open and competitive (the new government policy on privatization has provided a more transparent framework for this process in the case of SOEs and government owned shares).	• Privatization Board, Ministry of Textiles, Ministry of Energy and Mineral Resources, Power Development Board (PDB), Ministry of Communications and Telephone and Telegraph (T&T) Board
	b. The Privatization Board was established on March 20, 1993 and then given "status similar to that of an autonomous body" on 07 December 1993 and given a budget. Privatization procedures have been improved -- there is no requirement for buyers to keep all the staff of tendered companies, the tendering system has been made more transparent, and the terms of payment by private buyers have been made easier. Still, the privatization process is progressing slower than many expected.	ii. Encourage foreign participation in the privatization process (the new government policy on privatization provides equal emphasis on sales to foreign and local interests).	• Privatization Board, Ministry of Textiles, Ministry of Energy and Mineral Resources, PDB, Ministry of Communications and T&T Board
	c. The Privatization Board has targeted 39 state owned enterprises (SOEs) to be privatized during 1994-95. It includes eleven units in the textiles subsector, eight units in the steel and engineering subsector, ten units in the chemicals subsector, and ten units in the sugar and food subsector. This Board also lists the names of ten multinationals for which the government's shares are to be sold. During the Privatization Board's tenure, government shareholdings in five SOEs have been sold to private bidders. In addition, the shares of six multinational were sold to a state-owned insurance company.	iii. In addition to disinvestment of state owned enterprises through closed bidding, additional mechanisms should be employed, where appropriate, such as open bidding for blocks of shares; open auction; transfer of shares through the securities market (the recent government budget submission and the new privatization policy notes that the government has decided to off-load part of its holding of shares in public companies through the stock market); employee takeover (the new privatization policy explicitly refers to this possibility); and bank structured, financed and underwritten disinvestment.	• Privatization Board, Ministry of Textiles, Ministry of Energy and Mineral Resources, PDB.
	d. During June 1994, the Cabinet approved a privatization policy which increases the transparency of the process of privatization of SOEs and government owned shares. It also says attempts will be made to broadbase ownership.	iv. Where government is unable to transfer, or wholly transfer, ownership of assets to private parties, other methods of privatization such as management contract, leasing and joint private-public ownership should be undertaken.	• Cabinet Division, Privatization Board, Ministry of Communications, T&T Board, and other relevant government agencies.
	e. The Ministry of Industry submitted and Parliament passed, in July, the Bangladesh Industrial Enterprises (Nationalisation) Amendment Bill, 1994. The bill creates rules for registering nationalized industrial enterprises as limited companies under the Companies Act of 1913 and for providing industrial enterprises autonomy of operations.	v. Engage competent professional advice for sale and valuation processes (the new privatization policy provides that chartered accountant firms will be involved in this process).	• Ministry of Textiles and Privatization Board.
		vi. The Government should absorb part of outstanding liabilities where net worth is negative to make the privatization offer attractive (the new privatization policy explicitly excludes this except in the case of short term bank loans against stocks and stores where the government will take over liability in excess of the value of stocks and stores).	• Privatization Board and respective government agencies.
		vii. Liquidate enterprises which can be judged as inviable even with restructuring and rehabilitation.	• Privatization Board and respective government agencies.

Policy Area/Objectives	Current Problems/Status; Recent Measures Taken	Further Actions Needed: Specific Recommended Measures	Agency or Organization Responsible for Action
		viii. As interim measures to privatizing the SOEs:	
		- Establish an independent audit body, reporting directly to the Prime Minister and accountable to the Parliament, to detect and report pilferage in the SOEs.	• Prime Minister's Secretariat, Cabinet Division and Ministry of Finance.
		- Recruit top SOE executives from the open market and engage them under contracts renewable on the basis of performance.	• Cabinet Division and relevant government agencies.
		- Bring SOEs under the purview of the Companies Act as is called for under the Bangladesh Industrial Enterprises Amendment Bill, 1994	• Ministry of Law and Ministry of Industry.
		ix. Contracting out to private firms of client-based services -- which the government is now providing. Customs would be a good place to start.	• Privatization Board and respective government agencies.
		x. Make more intensive use of build operate and own (BOO) and build operate and transfer (BOT) mechanisms to accelerate infrastructure development, especially for development of power, gas, telecommunications, special development zones such as export processing zones, and rail and port facilities.	• Cabinet Division and government infrastructure related agencies (PDB, Roads and Highways, port authorities, gas authorities, T&T Board, etc)
		xi. Rationalize labor by removing over-staffing before privatization by resorting to voluntary labor retrenchment under a "golden hand shake" scheme which has donor support.	• Privatization Board and respective government agencies
		xii. In the privatization process, the Privatization Board must strive to ensure competition or, where this is not possible, or practical, work with other concerned agencies -- e. g., the Ministry of Commerce -- to see that simple targeted regulatory rules are in place to protect the public in a monopoly environment.	• Privatization Board and Ministry of Commerce
		xiii. The Privatization Board should initiate a major awareness campaign to inform the public of how much state run enterprises and services are costing them in terms of high taxes, lost jobs, high interest rates, inadequate infrastructure, and poor services and products.	• Privatization Board
		xiv. The Chairman of the Privatization Board must be a person who is free of vested interests in the privatization process. Members and Executive Directors should be persons having experience in areas such as industrial strategic planning, project appraisal, contract law, and public relations. One of the two full time Members should come from the private sector and additional private sector members should be brought in as ex-officio members representing the chambers.	• Prime Minister's Secretariat, Cabinet Division

Policy Area/Objectives	Current Problems/Status; Recent Measures Taken	Further Actions Needed: Specific Recommended Measures	Agency or Organization Responsible for Action
5. Streamline and make the government bureaucracy effective, efficient and accountable, and its activities transparent	a. There are a number of ministries dealing with industry and commerce. There is also the Board of Investment (BOI) and the Privatization Board -- neither apparently with the authority they need to accomplish their missions.	i. Thought should be given to consolidating these fragmented elements into one large ministry made up of a number of divisions -- each with its own secretary. The restructuring should eliminate redundancies and aim at achieving economy, efficiency and productivity.	• Cabinet Division and the Establishment Division
	b. The pay scale is too low to permit officials a reasonable life style -- thus leading to a lack of incentive and diligence and to rent seeking. The size of the bureaucracy is also too massive with many people sitting around doing nothing.	i. Raise pay scale X percent per year until total benefits reach the level of the private sector. Decrease the size of the bureaucracy by Y percent a year until an optimum size is reached.	• Cabinet Division and the Establishment Division
	c. The government *Rules of Business* is outdated and inappropriate to a modern democratic form of government.	i. The *Rules of Business* need to be revised to reflect a parliamentary form of government, eliminate secrecy, and introduce transparency and a sense of service to the public.	• Cabinet Division
	d. Four government committees have been established to review administrative reform proposals and needs. One of these, a Ministerial Commission, is to propose concrete actions based on the work of the other committees. The Commission's report is now over due.	i. The government administrative reform committees should expeditiously complete their work and with donor assistance implement reform.	• Cabinet Division
6. Maintain general security and industrial peace	a. There are periodic recurrences of violent activities in educational institutions and outside as well as frequent general strikes (hartals) and labor unrest.	i. Set up or strengthen police guards at vulnerable points including industrial plants.	• Ministry of Home Affairs
		ii. Ban -- and enforce ban on -- political rallies in educational institutions.	• Ministry of Home Affairs
	b. Passage of and placing into effect the anti-terrorism law has helped the general law and order, and security problem -- but further improvement is needed.	iii. Sternly deal with illegal labor unrest in accordance with the labor law.	• Ministry of Home Affairs
		iv. Depoliticize labor unions by reducing their multiplicity and allowing only one union in an industrial establishment.	• Ministry of Labor and Manpower and Ministry of Law
		v. Discontinue unauthorized Government intervention in labor disputes and the wage negotiation process.	• Ministry of Labor and Manpower
7. Stimulate the private sector through increasing public investment. The immediate objective would be to increase the rate of implementation of the Annual Development Budget and a longer term objective would be to increase thesize of the public development program.	a. Government spending of funds on donor supported development programs is far behind schedule. This leads to missed opportunities such as stimulating private sector activity via generating more effective demand as well as providing improved infrastructure to lower the cost of "doing business" and greater human resource development through improvements in education and health services, and drawing down on the excess foreign exchange reserve which is partially responsible for an overvalued exchange rate which in turn hurts export industry. A continued sluggish execution of these programs will lead to a reduction in donor funding (witness the Asian Development Bank's recent cancellation of a 62.7 million US dollar interest-free loan).	i. Bureaucratic procedures for processing and implementing development projects must be streamlined. Authority should be delegated. Project directors must be full time and frequent transfers should be avoided.	• All concerned agencies
		ii. More responsibility for project implementation should be shifted to the private sector.	• All concerned agencies

Policy Area/Objectives	Current Problems/Status; Recent Measures Taken	Further Actions Needed: Specific Recommended Measures	Agency or Organization Responsible for Action
8. Overcome infrastructural deficiencies	a. Shortages and frequent power outages, running out of existing known gas reserves by the year 2010 and likely shortages in gas and power production if facilities are not quickly developed, and inadequate telephone facilities are some of the problem areas. b. New petroleum policy encourages private exploration of oil and gas, the import tax on exploration equipment has been waived, private sector distribution of gas will be allowed in case the Government supply proves inadequate, and power generation by the private sector is encouraged by Government. The Government's decision to amend existing laws (Telephone Board Ordinance, 1979) for allowing private sector participation in telecommunications. c. Encouraging privatization developments in various forms in these sector include: • Possibility of foreign participation in telecommunications in the form of joint ventures or a new privately owned company competing with Bangladesh T&T Board. • In the oil and gas sector, a government decision to permit negotiations of an agreement with international companies and an agreement reached to establish a separate, commercially oriented gas and transmission company. • In the power sector, government programs to separate generation, transmission and distribution into autonomous commercial entities.	i. Accelerate the current moves to encourage private foreign participation in power, gas and telecommunications sectors. ii. Encourage further private sector participation in these sectors offering such forms as management contracts, lease, build-own-operate and build-own-transfer arrangements. iii. Charge same prices of gas to users in the private power generation as charged to the Power Development Board. iv. Eliminate theft of electricity. The government decision to separate generation, transmission and distribution into separate autonomous commercial companies is a step in the right direction. Thought should be given to having these entities run under private management contracts.	• Ministry of Energy and Mineral Resources, and the Ministry of Communications • Ministry of Energy and Mineral Resources, and the Ministry of Communications • Gas companies -- for example, Titas, Bakhrabad • Ministry of Energy and Mineral Resources, The Bangladesh Power Development Board, the Bangladesh Rural electrification Board and the Dhaka Electricity Supply Authority
9. Establish a credible education system with the introduction of educational technology and the reintroduction of English as important components	a. The government has expressed an intention to reintroduce English as a compulsory subject up to the graduate level.	i. Remove all tax on computer and related technology	• Ministry of Finance and National Board of Revenue

120

Policy Area/Objectives	Current Problems/Status; Recent Measures Taken	Further Actions Needed: Specific Recommended Measures	Agency or Organization Responsible for Action
10. Strengthen the industrial chamber and association movement	a. For many years, the government bureaucracy has received training, technology and technical assistance from donor agencies aimed at developing its planning and policy making capabilities. Now that the country is moving toward a private sector led growth strategy, it is time that both the government and the donor community invest in developing the private sectors ability to analyze, formulate and assist the government in implementing industrial plans and policy.	i. Initiate a donor supported project aimed at strengthening the chamber and association movement through institution building that includes a strong component aimed at strengthening the movements ability to participate in national planning as well as to conduct a strong forward looking policy dialogue with government.	• Ministry of Industries and USAID
11. Develop a consumer interest lobby	a. Consumers should be a major force directed toward rationalizing the economy through their desire for low price and high quality goods. b. The Ministry of Commerce has initiated work on a Consumers' Protection Act.	i. The Ministry of Commerce should initiate seminars and discussions focusing on the proposed act and consumer needs among consumers, chambers of commerce and industry and relevant government officials. The act should focus on desirable standards and correct measurements and steer clear of pricing which should be left to free market competition.	• Ministry of Commerce

Exhibit G-2. PIAG's Analysis of Policy Changes Made by BDG after PIAG Representations (Provided to Evaluation Team October 9, 1994)

Policy Changes Following PIAG Representations	Comments
1. Introduction of a process of automatic registration of proposed investment projects with the Board of Investment. Of particular importance was the removal of a requirement of documentary proof that an investment was already underway prior to being able to obtain BOI registration.	This recommendation was made in the PIAG Policy Matrix as well as in PIAG Report 6. Also, several meetings were held with Members of the BOI at which this issue was raised. After the policy change was implemented, there was a large increase in the number of new investments registered with BOI.
2. Removal of the requirement for foreign shareholders of joint venture companies, or companies wholly owned by foreigners, to seek permission from the Securities Companies Commission for the purpose of transferring their shares to others.	This recommendation was made in the PIAG Policy Matrix as well as in PIAG Report 6. Also, meetings were held on the issue with the Chairman of the Securities and Exchange Commission. The change is a direct result of PIAG representations.
3. Introduction of a computer-based management information system in MOI.	This was recommended in PIAG Report 5. PIAG is currently working with the Ministry to introduce a rudimentary system and to examine the benefits of such systems.
4. Elimination of the passbook system limiting imported inputs for all but restricted import categories.	This was recommended in the PIAG Policy Matrix and in PIAG Report 6, as well as in meetings with members of the BOI. A new policy was established whereby new passbooks limit only restricted items. Customs, however, still limits unrestricted items listed in old passbooks without written BOI approval. PIAG is now making a recommendation that the Chief Controller of Imports & Exports should recall all old passbooks and replace them with new ones or the NBR should issue a Statutory Regulatory Order stating that henceforth restriction of imports of the passbook items would apply only in the cases of restricted import category items.

(continued)

Exhibit G-2 (continued)

Policy Changes Following PIAG Representations	Comments
5. Full exemption of duties on imported machinery for 100 percent export-oriented industries outside the export processing zones without requiring bank guarantees.	Proposed in PIAG Report 3.
6. Development of a database of listed companies on the Dhaka Stock Exchange.	Proposed in PIAG Policy Matrix.
7. Increase cash compensation to local fabric producers from 15 to 25 percent of the value of such supplies to ready-made garments producers for export in lieu of duty drawback.	Proposed in PIAG Policy Matrix and PIAG Report 6.
8. Exemption of duty on raw hides and skins for leather producers with a bank guarantee.	Proposed in PIAG Policy Matrix and in PIAG Report 6.
9. Withdrawal of Bangladesh Bank controls on bank loans to hosiery industry, trading loans to sugar, pharmaceuticals, textile products and general merchandize, and on bank financing of stocks of certain goods categories such as air conditioners, complete bicycles, domestic refrigerators, electric fans, motor cars, trucks, and buses.	Proposed in PIAG Policy Matrix and in PIAG Report 6.
10. Further relaxation of foreign exchange controls such as those on personal and business travels, making the Bangladesh Taka fully convertible on current account by eliminating or relaxing exchange controls on remaining current account items.	These were proposed in PIAG Report 6.
11. The Finance Minister has already announced that the Taka would be soon made convertible also on capital account.	Proposed in PIAG Report 6.

(*continued*)

Policy Changes Following PIAG Representations	Comments
12. We understand that the National Labor Law Commission has recommended the following: a) No outsiders, including previous employees of an industrial firm, could become members of a trade union of that firm or, if already members, retain that membership. b) A three-year moratorium has been proposed on the formation of trade unions in newly-established industries.	These were proposed in PIAG Report 6. An earlier version of the Report was made available to the National Labor Law Commission while it was in the process of finalizing its report. According to the disclosure of a previous member of the Commission in the PIAG seminar held on 16 April 1994 to discuss the PIAG Report 6, the Commission has addressed most of the concerns and issues raised in PIAG Report 6.

Appendix H

CORRESPONDENCE BETWEEN PIAG AND THE SECURITIES AND EXCHANGE COMMISSION

Exhibit H-1. Letter from Dr. R. P. Black, PIAG Chief Technical Adviser, to Dr. Najmul Hossain, April 20, 1994

Exhibit H-2. Letter from Mr. S.Z. Khan, SEC Chairman, to Dr. R. P. Black, PIAG Chief Technical Adviser, March 20, 1994

Exhibit H-3. Letter from Dr. R. P. Black, PIAG Chief Technical Adviser, to Mr. S. Z. Khan, SEC Chairman, March 31, 1994

Exhibit H-4. Draft SEC Notification, April 11, 1994

Exhibit H-5. Final SEC Notification, April 12, 1994

Exhibit H-6. Press Clipping from *Daily Star*, April 14, 1994

Exhibit H-7. Letter from Mr. S.Z. Khan, SEC Chairman, to Dr. R. P. Black, PIAG Chief Technical Adviser, April 25, 1994

Exhibit H-8. Letter from Dr. R. P. Black, PIAG Chief Technical Adviser, to Mr. S.Z. Khan, SEC Chairman, April 28, 1994

Exhibit H-1

Tom, I believe this is an example of a PIAG success

Ronald P. Black, PhD
Chief of Party

The Policy Implementation
and Analysis Group (PIAG)

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Dhaka 1000,Bangladesh
Tel: (880-2)863855
Fax: (880-2)883416
883519*

20 April 1994

Dr Najmul Hossain
Private Enterprise Officer
USAID/OEE
American Embassy

Dear Najmul:

With this letter, I would like to document a recent PIAG success. On 28 February, I sent Mr Sultan-uz Zaman Khan, Chairman of the Securities and Exchange Commission, a copy of Abdur Rab's latest report on regulatory constraints to industrial development. On 20 March, Mr Khan wrote to me questioning whether a statement in Dr Rab's report, which claimed that non-portfolio investors needed SEC permission to disinvest their shares, was true. He noted, "SEC on its part has found no basis for the above mentioned observation." See the attached copy of Mr Khan's letter.

Subsequently, I wrote Mr Khan explaining the basis of our information. See attached letter from me to Khan. We then called Mr Khan and arranged for Abdur and I to meet with him--which we did on 5 April. At this meeting we discussed many examples of Government regulatory controls and the difficulties encountered in implementing Government policy which should do away with these. Mr Khan had ask one of his officers if SEC approval was required by foreigners to disinvest non-portfolio shares. He was assured that this was not required. However, by the time we left, having spent about an hour with him, he had begun to have some concerns and told us he would check once more.

On 11 April, Mr Khan called me and said he had indeed discovered that foreigners were coming to SEC requesting permission to disinvest. He was therefore putting out a notification that this was not required. He said that he would like to send over a copy of their draft and get our comments. This arrived shortly thereafter. The statement was quite clear in stating that joint ventures or foreign owned companies do not need SEC approval to transfer their shares. However, the last sentence of the notice as a sort of an aside noted, "foreign shareholders shall be guided by the respective company's Articles of Association or any relevant law in force." See the attached draft notice. We believed this last sentence did not add anything and could serve to confuse people. I conveyed this view to the Chairman. He noted that the last sentence had not been in the original which he had written but had been suggested by one of his officers and so he had let it stand but that now that

Exhibit H-2

Sultan-uz Zaman Khan
Chairman

সিকিউরিটিজ ও এক্সচেঞ্জ কমিশন
SECURITIES AND EXCHANGE COMMISSION
JIBAN BIMA TOWER (15TH & 16TH FLOOR)
10, DILKUSHA C/A. DHAKA-1000. TEL: 866789

No. ED/DEV/SE-SEMINARS/94-127

20 March, 1994

Dear Mr Black,

With your letter dated 28 February 1994 addressed to me you sent a copy of final draft of "Regulatory Constraints to Industrial Development in Bangladesh and Recent Deregulations."

I wish to invite your attention to paragraph 2.21 at page 11 of the above mentioned report which reads as follows : "Another issue that can be troublesome to foreign firms is the relative difficulty it can face in winding up business and repatriating its capital. While foreign investors investing in stocks and shares of the Stock Exchange can freely invest and disinvest and repatriate without requiring any permission, this is not the case with non-portfolio investors. The latter group of investors need permissions from relevant authorities like the Securities and Exchange Commission and the Bangladesh Bank to remit their disinvested share capital."

SEC on its part has found no basis for the above mentioned observation. Can you please clarify ?

Yours Sincerely

Sultan-uz Zaman Khan

Mr Ronald P. Black
Chief of Party
The Policy Implemention and
Analysis Group (PIAG)
Adamjee Court (4th floor)
115-120 Motijheel C/A
Dhaka-1000.

we thought it could lead to confusion, he was inclined to delete the last sentence.

On 14 April, a headline on the front page of *The Daily Star* announced, "Foreign investors can transfer shares without permission." See attachment. At the PIAG seminar on 16 April, I was approached by the Chairman of the SEC and handed a copy of the official announcement. The last sentence of the draft had been dropped. See the attached copy of the official notification.

Chalk one up for PIAG!

Regards,

Ronald P. Black, PhD
Chief of Party

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Tel: (880-2)863855
Fax: (880-2)883416
883519

31 March 1994

Mr Sultan-uz Zaman Khan
Chairman
Securities and Exchange Commission
Jiban Bima Tower (15th & 16th Floor)
10 Dilkusha CA
Dhaka 1000

Dear Mr Khan:

Thank you very much for your letter, dated 20 March, 1994, No. ED/DEV/SE-SEMINARS/94-127, bringing our attention to a possible misrepresentation of clearance requirements for winding up foreign investors' businesses in Bangladesh and remitting disinvested proceeds. The observation made in Dr. Rab's draft report, which you have questioned, was based on the information he gathered from the Board of Investment's Foreign Investment Cell. At the time the Securities and Exchange Commission was established and some of the BOI's responsibilities transferred it, approval for remittances of disinvested share capital was o of the functions BOI ceased to perform. They, and we, assumed that this was now a function that you performed. If it is not, it is certainly something we wish to correct before publishing our final report. We will call your office in a couple of days to see if Dr Rab and I can visit you and be enlightened on this matter.

By the way, the seminar on Dr Rab's report had to be postponed due to unforeseen complications at the Ministry of Industries. We are now trying to reschedule for around the middle of this month. You will certainly receive and invitation when the new time is confirmed.

Yours sincerely,

cc: Dr Abdur Rab

সিকিউরিটিজ ও এক্সচেঞ্জ কমিশন
SECURITIES AND EXCHANGE COMMISSION
JIBAN BIMA TOWER (15 & 16 FLOOR), 10, DILKUSHA C/A, DHAKA-1000, TEL: 237972

No. SEC/Section-3/94-157 Dated : 12th April 1994

Notification

The Securities and Exchange Commission's attention has been drawn to a misunderstanding in certain quarters that the Commission's permission is required for transfer of shares owned by foreign investors in joint venture companies or companies wholly owned by foreigners.

In this connection, the Commission would like to clarify that foreign shareholders of joint venture companies or companies wholly owned by foreigners need not seek the Commission's permission for the purpose of transferring their shares to others.

Sultan-uz Zaman Khan
Chairman

Exhibit H-5

সিকিউরিটিজ ও এক্সচেঞ্জ কমিশন
SECURITIES AND EXCHANGE COMMISSION
JIBAN BIMA TOWER (15 & 16 FLOOR), 10, DILKUSHA C/A, DHAKA-1000, TEL : 237972

No.SEC/Section-3/94-

Dated : 11th April 1994.

DRAFT

Notification

The Securities and Exchange Commission's attention has been drawn to a misunderstanding in certain quarters that the Commission's permission is required for transfer of shares owned by foreign investors in joint venture companies or companies wholly owned by foreigners.

In this connection, the Commission would like to clarify that foreign shareholders of joint venture companies or compan wholly owned by foreigners need not seek the Commission's permission for the purpose of transfering their shares to othe However, in that respect, the foreign shareholders shall be guided by the respective company's Articles of Association or any relevant law in force.

Sultan-uz Zaman Khan
Chairman.
866789

Called on 11 Apr
Suggested he drop last sentence
He agreed.

131

Exhibit H-5

Press clipping from Daily Star
April 14,1994, page 1.

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also came up for discussion.

Finance Minister M. Saifur Rahman differed with those who thought the size of Bangladesh's ADP was unrealistic, saying that the govern-

See Page 10 Col. 7

Foreign investors can transfer shares without permission

The Securities and Exchange Commission Tuesday said that foreign shareholders of joint venture companies or companies wholly owned by foreigners need not seek the commission's permission for the purpose of transferring their shares to others, according to a SEC Press release, reports BSS.

The Chairman of Commission, Mr. Sultanuzzaman Khan, clarified that the commission's permission will not be required for transfer of shares owned by foreign investors in joint venture companies or companies wholly owned by foreigners.

Sultan-uz Zaman Khan
Chairman

সিকিউরিটিজ ও এক্সচেঞ্জ কমিশন
SECURITIES AND EXCHANGE COMMISSION
JIBAN BIMA TOWER (15TH & 16TH FLOOR)
10, DILKUSHA C/A. DHAKA-1000.TEL: 866789
FAX NO. 88-02-887940

NO.SEC/MISC-1/2/94-169 25 April,1994

Dear Dr Black,

I believe that the PIAG Seminar on Regulatory Constraints to Industrial Development in Bangladesh (16 April,1994) proved useful to all concerned. In that connection, I appreciate the reference which you made to the SEC notification removing restrictions on foreign share transfers in the case of non-portfolio investments.

Though I could not attend the full Seminar, we at SEC have reviewed the Matrix of Policy Actions on Accelerated Industrial Development, prepared by PIAG. SEC's action is called for in some specific areas included in that matrix. Those are briefly stated hereunder.

First, disinvestment of government-owned manufacturing capital through the stock market and by other means. SEC has taken up the matter with important ministries, notably the Ministries of Industries, Commerce and Energy, and also the Privatization Board. It has offered and is willing to provide technical assistance, as appropriate, to the concerned agencies in their work for processing specific cases related to off-loading of government-owned shares in SOEs, multinationals and other companies through the stock market.

Secondly, devising appropriate anti-speculative measures. We have already prepared a draft of "insider trading" regulations and would be happy to share it with PIAG for comments, if you so desire. Formulation of other pertinent regulations are presently under consideration.

Thirdly, development of a database on different aspects of capital market development. We consider this of great importance. We are engaged in developing a database on the listed companies of Dhaka Stock Exchange and would welcome any PIAG assistance in this area.

Finally, we hope to closely collaborate with PIAG, as feasible, in pursuing our common goal of enhancing investments for accelerated industrial development.

Yours Sincerely

Sultan-uz Zaman Khan

Dr Ronald P. Black
Chief of Party
Policy Implementation and
Analysis Group (PIAG)
Adamjee Court (4th floor)
115-120 Motijheel C/A
Dhaka.

Exhibit H-8

Ronald P. Black, PhD
Chief of Party

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883519

28 April 1994

Mr Sultan-uz Zaman Khan
Chairman
Securities and Exchange Commission
Jiban Bima Tower (15th & 16th Floor)
10 Dilkusha CA
Dhaka 1000

Dear Mr Khan:

Thank you very much for your letter of 25 April and the kind references to our seminar. We appreciated your participation and contribution.

* I was also pleased to hear that you believe some of the suggestions in our policy matrix are worth pursuing and that you are indeed already doing so. We would be quite pleased to see the draft of your "insider trading" and if we have any thoughts on it to share them with you. Also, we would be happy to see if there is anyway that PIAG could assist the SEC in developing a database on listed companies. At least we may have some ideas that we can offer.

I will give you a call early next week to see if we can arrange a meeting.

Yours sincerely,

Ron Black

135

Appendix I

OEE/USAID MISSION MEMORANDUM ON THE REGULATORY AND POLICY ENVIRONMENT INDEX, OCTOBER 11, 1994

Internal Memorandum from Mr. S. Calliston to OEE staff explaining how the Regulatory and Policy Environment Index listed as an indicator under Program Outcome 2.2 of the PRISM outline can be derived and tracked.

Explanation of Scores and Weighting System for Regulatory and Policy Environment Index

Regulatory and Policy Environment Index for PRISM P.O. 2.2

Development Objective	No. of Policy Changes Listed in Policy Matrix: A's	B's	C's	Totals	Percent
Banking	7	3	1	11	18.6
Business	4	2	1	7	11.9
Trade	7	7	1	15	25.4
Legal	8	2	1	11	18.6
Labor	3	2	5	10	16.9
Privatization	4	0	1	5	8.5
Totals	33	16	10	59	100.0

Derivation of Weighted Index:	A's x 4	B's x 3	C's x 2	Index Totals	Percent
Banking	28	9	2	39	19.5
Business	16	6	2	24	12.0
Trade	28	21	2	51	25.5
Legal	32	6	2	40	20.0
Labor	12	6	10	28	14.0
Privatization	16	0	2	18	9.0
Totals	132	48	20	200	100.0

NOTE: In the USAID/Bangladesh Policy Agenda Matrix, the 59 policy changes listed for these 6 development objectives are ranked A, B or C in order of importance, with weights of 4, 3 and 2, respectively, to derive the index of successful achievement.

USAID/B, OEE/CSCallison, PIAGINDX.wk1, 10/11/94

136

Appendix J

PLANNED INVESTMENTS REGISTERED WITH THE BANGLADESH BOARD OF INVESTMENTS

Exhibit J-1. PIAG Memo on Impact of Board of Investment Change

Table J-1. Selected Foreign Investment Proposals Registered with the Board of Investment from January to June 1994

Exhibit J-1

Ronald P. Black, *PhD*
Chief of Party

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and Analysis Group (PIAG)

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Fax: (880-2)863855*

13 October 1994

Dear Tom:

Enclosed is a better table for illustrating what happened when the simplified registration procedures were introduced at BOI. You will note that in the three years preceding the introduction of the procedure, Tk 4.4 billion was registered. In the first month after the simplified procedures were introduced, Tk 21.2 billion was registered--about five time the amount registered in the preceding three years. In April, Tk 2.2 billion was registered and in the first half of May, Tk 1.9 billion. Clearly there was a back log that surged through on first simplifying the procedures but still in the following two months more is being registered per month than was previously done per year.

I hope this is helpful.

JOINT VENTURE OR 100% FOREIGN
INVESTMENT REGISTERED WITH THE BOI (BOOK VALUE)

(TAKA MILLION)

	NUMBER OF PROJECTS	LOCAL	FOREIGN	TOTAL
1991 MAR-DEC	12	291.477	328.506	619.983
1992	22	452.998	1170.309	1623.307
1993	34	906.517	754.570	1661.087
1994 JAN-FEB	3	147.6	299.1	446.7
TOTAL	71	2798.592	2552.493	4351.077
1994 MAR	12	1196.8	20041.3	21238.1
APR	14	1351.4	831.7	2183.1
MAY (UPTO 14)	4	257.9	1634.6	1892.5
TOTAL	30	2806.1	22507.6	25313.7

3 years

~ 5 times previous 3 yrs

SOURCE: BOARD OF INVESTMENT

130

Table J-1. Selected Foreign Investment Proposals Registered with the Board of Investment from January to June 1994

SI No.	Name and Address of Project	Area of Investment	Total Investment (million taka)		Investor Country
01	Omega Aqua Farm Ltd. 2671 (P) East Nasirabad Hillview R/A. Chittagong	Prawn/Shrimp	1.45 (-) (100%)	 Local Foreign	USA
02	China-Bangladesh Hospital (JV) Ltd. Shams Bhaban 17, Siddeshwari Lane, Dhaka	Hospital & Clinic	3.90 (35%) (65%)	 Local Foreign	China
03	Wild Thing Ventures Pvt. Ltd. 62/5, Nutan Paltan Lane Azimpur, Dhaka	Leather Products	2.04 (-) (100%)	 Local Foreign	Hong Kong
04	The Lungla (Sylhet) Tea Co. Ltd. 22, Kazi Nazrul Islam Ave. Dhaka	Tea (Blending & Packeting)	162.12 (-) (100%)	 Local Foreign	UK
05	Inter Tech Engineering Ltd. Hasan Court (9th floor) 23/1, Motijheel C/A. Dhaka	Steel Structure Fabrication	23.00 (35%) (65%)	 Local Foreign	Sri Lanka
06	Simak Wooden Industry Ltd. Johanna Safstrom Spelmans hojden 6 Sundbyberg, Sweden	Wooden Furniture	1.95 (20%) (80%)	 Local Foreign	Sweden
07	Concept International (BD) Ltd. House No. 93A, Road No. 25, Banani R/A, Dhaka	Textile Dyeing & Finishing	11.00 (-) (100%)	 Local Foreign	Sweden, Pakistan, UK
08	Sanritsu (BD) Co. Ltd. Hussain Khan Centre (6th floor) 13, Dilkusha C/A, Dhaka	Lens Manufacturing	11.48 (26%) (74%)	 Local Foreign	Japan
09	Bhagwan Paper Machine (Pvt.) Ltd. 162, Shantibagh, Dhaka	Media Paper	9.00 (-) (100%)	 Local Foreign	India
10	Sun Methanol Bangladesh Ltd. 2/9, Block-D, Lalmatia Housing Estate, Dhaka	Methanol Mfg.	11388.40 (4%) (96%)	 Local Foreign	Saudi Arabia
11	Hualon Corp. Bangladesh Pvt. Ltd. Level 9&10, Wisma Gold hill Jalan Raja Chulan 50200, Kualalumpur Malaysia	Integrated Textile Mill	8507.78 (-) (100%)	 Local Foreign	Malaysia
12	Biella Knitting Ltd. Plot-326/A Tongi Industrial Area Dhaka	Woolen Sweater	12.50 (10%) (90%)	 Local Foreign	Italy

- 134 -

Table J-1 (continued)

Sl No.	Name and Address of Project	Area of Investment	Total Investment (million taka)	Investor Country
13	Maladesh International (Pvt. Ltd. 29, RAJUK Avenue, 4th floor Motijheel C.A., Dhaka	Mosquito Coil	40.00 (20%) Local (80%) Foreign	Malaysia
14	Silpac Industries Ltd. Hossain & Khan Centre 13, Dilkusha C.A. Dhaka	Garments Accessories	12.82 (30%) Local (70%) Foreign	Malaysia
15	Bangla Wire 76/1, Laboratory Road Rajanigandha Bhaban Dhaka	Bead Wire Ring Mfg.	0.21 (-) Local (100%) Foreign	India
16	Vivid Textile (Pvt.) Ltd. A-22, Ramna Estate Complex, Bara Moghbazar, Dhaka	Specialized Textile	23.34 (-) Local (100%) Foreign	Pakistan
17	Aidecom International Ltd. House-2, Road-13 Uttara, Dhaka	Low cost Shelter Mfg.	10.00 (-) Local (100%) Foreign	UK
18	International Textile Mills Ltd. Batali Hills, Chittagong	Integrated Textile Mill	1796.00 (13%) Local (87%) Foreign	Japan
19	Korea Bangladesh Silk Industries Ltd. Ibrahim Chamber 95, Motijheel C/A, Dhaka	Silk Fabrics	63.30 (16.67%) Local (83.33%) Foreign	Korea
20	Eight Tea Factories C/O. James Finlay PLC Finlay House, Agrabad P.O. Box-118 Chittagong	Tea Manufacturing	327.31 (-) Local (100%) Foreign	UK
21	Hotel Deluxe (Pvt) Ltd. 51, Motijheel C/A Dhaka-1000	Hotel, Motel & Restaurant	102.00 (25%) Local (75%) Foreign	Germany
22	Reliance Industrial & Trading Corporation Ltd. 24-25, Dilkusha C.A. Dhaka	Shrimp Culture & Processing, Canning and Preservation of fishes & other Sea Foods	60.50 (25%) Local (75%) Foreign	Taiwan
23	Malaysian Trade Centre Clinic Ltd. House-11, Road-99 Gulshan, Dhaka	Diagnostic Clinic	7.00 (-) Local (100%) Foreign	Malaysia
24	North South Composite Textile Ltd. 358, North Goran, Dhaka	Composite Textile Mill	1934.61 (30%) Local (70%) Foreign	Pakistan
25	Infobase Services (P) Ltd. 144, Motijheel C.A. Dhaka	Printing 7 Publishing	0.50 (-) Local (100%) Foreign	India

Table J-1 (continued)

Sl No.	Name and Address of Project	Area of Investment	Total Investment (million taka)		Investor Country
26	Dhaka-Seoul Textile Industries Ltd. House-99, Road-13 Block-D, Banani Dhaka	Textile Weaving	100.00 (20%) (80%)	 Local Foreign	Korea
27	Abdullah Corporation 16.4, Mirpur, Dhaka Cant. Dhaka	Textile Weaving	2.50 (20%) (80%)	 Local Foreign	Japan
28	Continental Resorts Bangladesh (Pvt.) Ltd. 224/D, Malibagh, 2nd floor Dhaka	Hotel & Restaurant	8.00 (25%) (75%)	 Local Foreign	USA
29	Kim's Metallic Products Ltd. 8/6, Segun Bagicha 1st floor, Dhaka	Metallic Yarns	5.50 (20%) (80%)	 Local Foreign	Korea
30	Golden Knitting Company (BD) Ltd. Road No. 1, House No. 36 Block No. 1, Banani Dhaka	Knitted Woolen Products	40.00 (30%) (70%)	 Local Foreign	Malaysia
31	United Aqua Farms (BD) Ltd. Halishahar Housing Estate K-Block, House-6 Road-3, Lane-3 Chittagong	Fish Culture & Processing	10.00 (-) (100%)	 Local Foreign	USA, Ethiopia
32	Belkuchi Leather Processing Industries Ltd. House-99, Road-13 Block-D, Banani, Dhaka	Leather Goods	100.00 (20%) (80%)	 Local Foreign	Korea
33	Bangladesh Kawa Industrial Co. Ltd. 1/16, Rupnagar Shialbari, Section-2 Mirpur, Dhaka	Printing & Packaging	17.00 (10%) (90%)	 Local Foreign	China
	Total		24,795.21		

Note: all proposals are 65 percent or more foreign investment.
Source: Bangladesh Bureau of Investment, as published in *Chamber News*, October 1994, 42-52.

Appendix K

IESC MATERIALS

Table K-1. IESC/Bangladesh Assignment Log and Post-Project Review Ratings for Completions as of October 31, 1994

Exhibit K-1. IESC Case Studies

Table K-1. IESC/Bangladesh Assignment Log and Post-Project Review Ratings for Completions as of October 31, 1994

#	I.D. #	Client Company	Industry Type	Volunteer Executive Name: Last	Volunteer Executive Name: First	Date Started	Date Finished	Total Days	Cancelled or Curtailed	VE re-peat	Post Proj. Perf. Eval.: VE	Post Proj. Perf. Eval.: Client	Client 6-mos Eval.
1	19111	Graphics Ltd.	Printing	Quattrochi	Peter	15-Sep-90	15-Dec-90	91			na	na	2
2	A0953	Sidko	Textiles	ABLE Study	No VE visit required		04-Feb-91	00			na	na	na
3	19005	Apex Tannery Ltd.	Leather	Ebel	Joerg	18-Jul-91	24-Sep-91	68			4	3	3
4	20550	Al Baraka Bank	Banking	Simmons	Alexander	27-Jun-91	01-Sep-91	66			4	4	3
5	21004	Uttara Bank Ltd.	Banking	Emrich	Edward	09-Sep-91	11-Nov-91	63			4	3	3
6	20175	Rahman Chemicals Ltd.	Chemical	Haack	Robert	06-Jan-92	17-Mar-92	71			4	4	none
7	21682	Burlintons Ltd.	Textile	Vashon	Clarence	13-Jan-92	16-Mar-92	63			4	4	3
8	21092	ICDDRB	Medical	Robin	Wynn	13-Jan-92	17-Feb-92	35			2	2	3
9	21095	ICDDRB	Medical	Gustafson	Richard	20-Jan-92	19-Mar-92	59			4	4	none
10	22275	The Bengal Glass Works Ltd.	Glass	Curtis	Charles	18-May-92	22-Jun-92	35			3	2	1
11	22146	Ind. Univ. Bang.	Education	Johnson	Early Ashby	31-May-92	28-Aug-92	89			4	4	none
12	22147	Ind. Univ. Bang.	Education	Bowman	Paul	28-Jun-92	01-Sep-92	65			4	4	3
13	22305	Apex Footware	Leather	Ginsburg	Carleton	01-Oct-92	29-Dec-92	89			na	4	none
14	22149	Ind. Univ. Bang.	Education	Mahoney	Charles	08-Oct-92	16-Nov-92	39			4	4	none
15	22563	Kumudini Welfare Trust	Service	Vogel	John	19-Oct-92	12-Jan-93	85			4	4	none
16	22266	Wata Chemicals	Chemical	VE Cancelled on		19-Jan-93		00	Cancelled		2	2	3
17	22870	B'desh Welding Electrodes	Eng.Metal	Case	Coyle	28-Feb-93	13-Apr-93	44			na	na	na
18	A1630	Kumudini Handicrafts Centre	H. Craft	ABLE Study	No VE visit required		02-Apr-93	00			na	na	na
19	23442	North South University	Education	Thomas	James	28-Feb-93	28-May-93	89			4	4	3
20	23484	BASC	Service	Decastro	William	10-Mar-93	06-May-93	57			4	4	none
21	23665	BRAC-AARONG	H. Craft	Blank	Seymour	26-May-93	05-Aug-93	71			4	4	3
22	23924	Ind. Univ. Bang.	Education	Heckman	Philip	16-Jun-92	27-Jul-92	41			4	4	none
23	23028	Sk. Akijuddin Ltd.	Tobacco	VE Cancelled on		21-Jul-93		00	Cancelled		na	na	na
24	23030	Sk. Akijuddin Ltd.	Machinery	VE Cancelled on		21-Jul-93		00	Cancelled		na	na	na
25	23622	Kumdini Hospital	Medicine	Autrey	Harold	27-Sep-93	07-Nov-93	41			4	3	none
26	23921	Pfizer/Renata Ltd.	Pharmaceutical	Hayes	Oscar	22-Sep-93	06-Dec-93	75			4	4	none
27	23590	Kumudini Garments	Textile	Gilbertson	George	27-Oct-93	27-Nov-93	31	VE died		na	na	na
28	24285	Uttara Garments	Textile	Leithelser	Jack	27-Sep-93	05-Dec-93	69			3	3	3
29	23923	Renata/Pfizer Ltd.	Pharmaceutical	Weaver	Joseph	17-Jan-94	10-Feb-94	24	Incomplete		3	3	none
30	24228	Apex Tannery	Leather	DeCastro	William	10-Jan-94	17-Mar-94	66		1	4	4	none
31	24409	National Bank Ltd.	Banking	Bauder	Howard	24-Mar-94	17-May-94	54			3	na	none
32	24573	Adv. Chemical Ind. Ltd.	Chemical	Duffy	John	08-Feb-94	01-May-94	82			3	3	none
33	25031	Manzur Industries	Leather	VE Cancelled on		11-May-94			Cancelled		na	na	na
34	25591	North South University	Education	Thomas	James	03-Mar-93	27-May-93	85		1	na	na	na
35	25644	Rahman Chemicals	Chemical	Haack	Robert	30-Mar-94	30-Apr-94	31		1	3	3	3
36	25854	Northern Distilleries	Chemical	Haak	Robert	01-May-94	16-May-94	15		1	3	3	none
37	25869	Ind. Univ. Bang.	Education	Maynard	Cyril	02-Aug-94	13-Nov-94	103			na	na	na
38	25591	North South University	Education	Thomas	James	13-Oct-94	07-Dec-94	55		1	na	na	na
39	26015	Advanced Chemical Industries	Chemical	Hayes	Oscar	17-Oct-94	12-Dec-94	56		1	na	na	na
40	25764	Bengal Glass	Glass	Baker	Milton	Ongoing		?					
								2007	6	6	93	90	36

34 VE assignments started as of 12/31/94 + 4 cancelled + 2 ABLE projects = 40.

na = not available to evaluation team.

none = not asked for from client.

Note: PPR = Post Project Review, an evaluation form completed by client, VE, & Country Director before the VE's departure.

For PPR question 2; "Have You Acheived the Expected Results?" 4= Yes; 3= Mostly; 2= Partially; 1 = No.

For 6-month evaluation; "Please Rate the Success of the Project": 4= Outstanding; 3= Good; 2= Fair; 1= Poor. Only about 1 in 3 clients is asked to complete a 6-month evaluation.

IESC.WQ1 NAI/JWV

Exhibit K-1. IESC Case Studies

AL BARAKA BANK, LTD.

Product	:	Banking
Market	:	Domestic 100% (Europe and USA)
IESC Volunteer	:	Mr. Alexander Simmons
Dates in Country	:	June 27, 1991 - September 1, 1991
Production	:	Before : NA After : NA
Employees	:	Before : NA After : NA % Change : NA
Women Employees	:	NA
Sales	:	Before : NA After : NA
Gross Profits	:	NA
IESC Involvement	:	The VE provided a comprehensive automated system of record and bookkeeping, modeled on computerized systems used in U.S. banks. The plan was complex, and included terms and systems (e.g. SWIFT) not relevant to Al Baraka bank's needs or budget. The plan was comprehensive, but difficult to understand and implement. It appears that alternatives were not presented. Al Baraka Bank was unable to implement the plan.
Economic Impact	:	Some Al Baraka Bank senior managers were introduced to the concepts, terms, capabilities, and complexities of automated banking systems. There was no measurable economic impact.

NOTE: NA = not made available to evaluation team.

APEX FOOTWEAR LTD.

Product	:	Leather Shoes
Market	:	100% Export (Japan)
IESC Volunteer	:	Mr. Carleton Ginsburg
Dates in Country	:	October 1–December 29, 1992
Production	:	Before : 320 pairs per day (net of 20% rejections) After : 1,000 pairs per day % Change : 213% increase
Employees	:	Before : 300 After : 300 % Change : No net change (restructured)
Women Employees	:	280
Sales	:	Before : Tk 4.1 million in 1991 After : Tk 68.1 million in 1992
Gross Profits	:	Before : (Tk 8.8 million) loss in 1991 After : Tk 71,000 in 1992
IESC Involvement	:	Apex Footwear Ltd. is an expansion of Apex Tannery, owned by one of Bangladesh's respected businessmen. The firm had good quality raw materials, a plant equipped with German machines rated at 1000 pairs per day, and a contract from a Japanese buyer. The plant was operating at only 400 pairs per day even after advice from the German equipment manufacturer and the Japanese buyer. The rejection rate was 20-25 percent. C. Ginsburg was able to restructure the workflow and motivate workers and managers to achieve production targets. This included phasing out nonperformers and rewarding star performers, and overseeing quality control at each step. The increase in production was achieved in about 90 days. Higher production levels would be possible except for delays in clearing supplies through customs.
Evaluator's Observations	:	The dramatic success of the Ginsburg assignment can be attributed to a combination of factors. Apex's physical plant and machinery were in good shape. Apex has good raw materials. Apex had export sales

orders. Ginsburg was the right man for this type of situation, and Apex cooperated fully, wasting no time in implementing Ginsburg's suggestions. Technical knowledge about production or factory management was the key missing ingredient, and Ginsburg was able to supply or "transfer" that technology. The lesson is that similar quick successes from consulting assignments will be possible if the key missing ingredient is really technological or management expertise, while other ingredients are already present. That makes the situation especially ripe for calling in outside expertise. It will still be necessary to identify the type of missing technology, and locate the right experts to implement the transfer of technology.

Most situations will not be as "ripe" for consultants as with the Apex Tannery case. This does not mean the consulting services are not required—only that they will not lead to instant improvements in operating results similar those achieved in the Apex case.

Subsequent Economic Impact : As a result of the successful operation of Apex Footwear Ltd., the Apex group went on to increase its sales and then to successfully issue debentures in the Bangladesh capital markets. The proceeds were used to pay off long term debt to BSB and to finance increasing working capital needs. Then in 1994, in response to a reduction of import duties on finished leather (from 60% to 10%) Apex initiated a $3.0 million expansion program that will raise production from 1000 to 1500 pairs per day, and increase employment from 300 to 700 persons. About 95% of the increased workforce will be women, earning entry level wages of Tk 1500 per day. The new factory will also increase the local content of the shoes from 49% to 70%. By 1996 sales are expected to reach to $10.0 million, double the current levels.

Liberalization of Trade Restrictions : This expansion is due in part to the successful IESC assignment and in part to liberalization of trade regulations. The impact will benefit more than just Apex's employees, including 380 new women employees (650 women employees total). It will also benefit smaller and medium-sized tanneries, cattle slaughtering, and cattle raising enterprises throughout Bangladesh. First round net annual benefits (value added) to Bangladesh from the investment and operation of the new $3.0 million will be approximately $3.5 million annually (80% of $5.0 million increase in sales). Over the next the 12 years the annual benefits will result in a total net present value of about $10.2 million (15% discount rate). Allowing for a multiplier effect of 2.0, the $3.5 of additional spending from the APEX expansion will produce approximately $ 7.0 million of additional total annual spending economy wide.

197

BURLINGTONS, LTD.

Product : Woven and Knitted Garments (Cotton & Polyester)

Market : Export 100% (Europe and USA)

IESC Volunteer : Ms. Clare Vashon

Dates in Country : January 13–March 16, 1992

Production : Main item Men's shirts + other items
Before : 6,000 dozens per mo. men's shirts in 1992
After : 10,000 dozens per mo. men's shirts in 1994

Employees : Before : 346 in 1992
After : 650 in 1994
% Change : 88 % increase

Women Employees : 520

Avg. Month Wage : Tk 1540 ($38) per month

Sales : Before : $2.0 million in 1992
After : $4.0 million in 1994

Gross Profits : NA

IESC Involvement : Burlingtons' first year of operation, 1992, was profitable, but also marked by production and quality control problems. The company had good equipment and interested buyers, but a relatively inexperienced workforce, including managers. The EV worked directly with the plant engineer/general manager on procedures for improving workflow, materials handling, and inspection. By implementing the EV's recommendations, the plant's productivity increased, and quality control improved. More importantly, Burlingtons' quality control improvement enabled it to win more orders from buyers. This encouraged the owners to invest an additional $500,000 in new production equipment and lines and to hire 300 new employees, including 240 seamstresses.

Economic Impact : The EV's immediate impact was an increase in productivity. This led to additional impacts in terms of new investment, employment, and income. Only about 25% of the final export value of garments represents value added in Bangladesh. The $2.0 million increase in Burlingtons's export sales represents about $500,000 in additional income annually to the economy of Bangladesh, of which some $300,000 (60%) represents wages to workers who were probably not earning an economic wage previously. Only about 10% of the one time investment in equipment of $500,000 was spent in Bangladesh, resulting in an addition to national income of about $50,000 in 1993.

NOTE: NA = not made available to evaluation team.

INTERNATIONAL CENTER FOR DIARRHEA DISEASE RESEARCH BANGLADESH (ICDDRB)

Product : Health Care, Medicine, Medical Research

Market : Mainly domestic, but research has global impact

IESC Volunteer : Mr. Wynn Robin and Mr. Richard Gustafson

Dates in Country : January 13–March 19, 1992

Production : Annual budget approximately $10 million.

Employees :

1992	:	1350
1994	:	1500
% Change	:	11 % increase

Women Employees : 220

Gross Profits : Nonprofit

IESC Involvement : ICDDRB is a world famous cholera and diarrheal disease research center that was instrumental in developing Oral Rehydration Therapy. The Center was interested in modernizing its inventory control and maintenance systems, and in restructuring its staff, many of whom were nearing retirement. Two VEs worked at ICDDRB in 1993. Robin Wynn, who stayed for only one month, made recommendations regarding inventory controls. He was not able to computerize the inventory system, but his procedural recommendations were adopted and the director says they have helped. The second VE was able to help ICDDRB develop a rational system for combining in-house maintenance capabilities with locally contracted services, which are now more readily available than when ICDDRB was established. The two assignments were part of an ICDDRB program to reduce operating costs. ICDDRB's director estimates that the center's operating costs have been reduced by about $130,000 per year since 1992, and that some $32,000 of this represents cost savings from the restructured motor vehicle workshop and maintenance department. The EV's recommendations for a maintenance plan helped ICDDRB make the most economical use of the center's own vehicle maintenance facilities in combination with outside maintenance services.

Economic Impact : The economic impact to Bangladesh of these changes in ICDDRB's operations is an efficiency gain of approximately $32,000 per year. The reduction in some staff at ICDDRB was not an absolute loss of employment for the economy. First, ICDDRB has hired staff in other areas, and they has also created employment by contracting for services previously provided by its own staff. The gain to the economy represents a savings of resources whose financial cost is $32,000. These savings allow ICDDRB to provide its health care services and conduct its research at a lower cost to the economy of Bangladesh. The financial cost can be used as an approximation of the economic benefits.

151

INDEPENDENT UNIVERSITY OF BANGLADESH, LTD.

Product	:	Education
Market	:	Domestic 100%
IESC Volunteer	:	Cyril Maynard
Dates in Country	:	March 31, 1994–November 7, 1994
Enrollment	:	1993: 6 students at inauguration in Feb. 1993 1994: 91 in October 1994 Women: 41 or almost 45% (Ratio at Dhaka U. is 30% women)
Employees	:	1994: 71 including faculty
Women Employees	:	9
Budget	:	Tk 22.4 million ($560,000) in 1993 Tk 32.0 million ($800,000) in 1994
Gross Profits	:	nonprofit
IESC Involvement	:	The Independent University of Bangladesh is a newly created private university, charging tuition of about $2,000 per year to students. The IESC EV is a retired registrar, and is helping the IUB to organize and computerize IUB's student records. IUB has invested about $15,000 in a 486 computer and printer and has hired an assistant registrar to work with the EV and learn the computer systems. When the EV departs the assistant registrar will become the registrar. A computer science professor also works with the EV in designing the records programs. The IUB will be able to produce student grade reports in house for the first time at the end of the fall semester, 1994. Previously, reports had been prepared and then sent out for printing to a contractor.
Economic Impact	:	One measure of the immediate or direct economic impact of the EV's work is the creation of an effective full time registrar in IUB, a job that will pay approximately Tk 40,000 per month, plus the savings on use of outside computer services, approximately Tk 2000 per month, or $12,600 per year. In a broader sense, however, the success of this new private university offers students and their families an alternative to attending the free state-owned universities that are frequently closed by strikes and marred by violence, or attending foreign universities where

tuition alone runs anywhere from $4,000 per student a year (India) to $20,000 (USA or UK). The rapid growth in enrollment suggests that demand for private educational services is strong, especially for female students. A successful university will also generate other economic benefits in the form of jobs for teachers, research, and community educational services. The creation of an effective, reliable registrar's office will play a small part in realizing those larger benefits.

KUMUDINI WELFARE TRUST , LTD.

Product	:	Commercial & Philanthropic Activities
Market	:	Domestic and Export
IESC VE	:	John Vogel
Dates in Country	:	October 19, 1992–January 12, 1993
+ ABLE Project	:	April 2, 1993
Production	:	Various
Employees	:	Before : 1,500 full time + 16,000 self employed (crafts) After : 2,000 full time + 20,000 self employed (crafts) % Change : 25 % increase
Women Employees	:	700 full time+ 17,000 self employed (crafts)
Sales	:	1992 : $ 2.2 million in 1992 1994 : $ not divulged
Gross Profits	:	nonprofit
IESC Involvement	:	Kumudini Welfare Trust is a large, woman-owned enterprise engaged in a combination of commercial (jute, transport, garments) and philanthropic enterprises (health care, teaching, women's handicraft). Profits from the commercial enterprises were used to support the charitable activities. By 1992, income from traditional commercial enterprises, mainly jute, had diminished to the point that the trust's financial condition was weakening. Ms. Joya Pati, the Chief Executive Officer of the Trust, wanted to maintain the Trust's committments to its philanthropic enterprises. She asked the IESC VE for a financial analysis and recommendations that would enable the Trust to continue its commitments without decapitalizing itself. Ms. Pati states that Mr. Vogel gave the Trust's managers exactly what they needed in the way of financial information and an improved financial information system. She also credits the VE with giving the Trust's managing board a plan to turn things around and the encouragement to take the needed decisions. In addition to recommendations for improving accounting and management information, the VE also made several operating recommendations that Trust implemented, including diversification into

154

new commercial ventures (RMG), and the introduction of user fees for health services. The Trust has recently started to offer contractual health maintenance plans to private employers (a VE suggestion). Ms. Pati said the ABLE project list of handicraft importers were mostly known to Kumudini already, and the report did not directly lead to new sales. The study did teach managers some key facts about marketing and pricing. The Trust has gone on to promote and expand its handicraft exports and has produced its first catalog with the assistance of Aid to Artisans and PACT. Some of these contacts were developed with the assistance of the VE's spouse, who helped with handicraft and handwoven fabric design as well as with teaching in the trust schools. The trust is eager for the VE and spouse to return for a second assignment in December, 1994.

Economic Impact : The evaluator was unable to obtain financial statement information on the trust, but it seems apparent that the trust was on the verge of contracting rather than expanding when the VE services were sought. To some degree the expansion in employment since 1992 would not have occurred without successful implementation of the VE's recommentations. As a result, rather than contracting, the Trust was able to add 500 new full time jobs, filling 175 of them with women. Some 4,000 new persons have been added to the Trust's system of self-employed craftsmen. The majority of these, some 3,400, are village women for whom handicraft sales to Kumudini is their first, and sometimes only, opportunity for generating cash income. To arrive at an economic impact estimate, the full-time jobs represent an income of Tk 1500 ($38) per month, close to minimum market wage in Bangladesh. Net payments for labor to the self-employed workers are estimated at an average of Tk 300 per month. Based on these two conservative assumptions, Kumudini's increased employment since 1992 results in net additional payments to labor of about $585,000 per year. The value added to the economy is probably somewhat higher because many of the crafts incorporate local materials and are sold at a price that also yields a return to the trust. For lack of any further data, however, this analysis will base the economic impact on payments to labor only, and the economic impact associated with the VE's assistance can reasonably be said to approximate $585,000 per year.

NORTH SOUTH UNIVERSITY , LTD.

Product	:	Education
Market	:	Domestic 100%
IESC Volunteer	:	Mr. James Thomas
Dates in Country	:	October 13, 1993–February 24, 1994
Enrollment	:	160 students in spring, 1993; first opened
	:	491 students in October, 1994
Employees	:	1994 : 51
Women employees	:	15
Budget	:	NA
Gross Profits	:	nonprofit

IESC Involvement : The North South University (NSU) is one of two newly created private universities that are offering 4-yr. degree programs. They are the first alternatives to the low-cost state-run universities that are failing to provide quality education. NSU opened in 1993 admitting 160 students who had passed a qualifying exam (50% pass rate). NSU uses Bangladeshi professors on leave from U.S. colleges to staff its visiting faculty. Tuition and fees run about $2,000 per year. The IESC EV is a retired registrar, and is helping the NSU to organize and computerize its student records and to produce a course-offering bulletin and class schedules. NSU has invested about $15,000 in a computer and printer for the registrars office and has hired an assistant registrar to work with the EV. When the EV departs the assistant registrar will become the registrar.

Economic Impact : One measure of the immediate or direct economic impact of the EV's work is the creation of an effective full time registrar in NSU, a job that will pay approximately Tk 50,000 per month or $15,000 per year. In a wider context, however, the success of NSU opens up the possibility of far larger economic benefits, including savings of foreign exchange by students who would otherwise go abroad for their university education. An estimated 200,000 Bangladeshi study abroad each year at costs ranging from $4,000 per student a year (India) to

$20,000 (USA or UK). The rapid growth in NSU's enrollment suggests that demand for its educational services is strong. A successful university will also generate other economic benefits in the form of jobs for teachers, research and community educational services. The creation of an effective reliable registrar's office will play a small part toward in those larger benefits.

NOTE: NA = not made available to evaluation team.

RAHMAN CHEMICALS , LTD.

Product	:	Glucose Syrup, Dextrose Monohydrate, Anhydrous Dextrose, Starch
Market	:	Domestic 100%
IESC Volunteer	:	Mr. Robert W. Haack
Dates in Country	:	January 6, 1992–March 17, 1992 March 30, 1994–April 30, 1994
Production	:	1992: 6.6 MT in 1992 1994: 8.4 MT in 1994 Increase: 27%
Employees	:	1992: 175 1994: 250 % Change: 42 % increase
Women employees	:	0
Product Value	:	1992 : $ 1.7 million 1994 : $ 2.1 million Increase: 23% increase
Gross Sales	:	1992 : $1.73 million in 1992 1994 : NA
IESC Involvement	:	Rahman chemicals has been in operation for over a decade, but has never achieved its rated production targets because of errors in the original engineering and design of the plant. The VE was asked to recommend ways to increase output under a variety of investment constraint scenarios, because the owners are in arrears on their existing loans to Bangladesh development finance institutions. During his 1992 visit the VE provided cost estimates for the additional balancing equipment needed, and during his 1993 visit he stopped in Pakistan on his way to Bangladesh to appraise some used equipment that Rahman Chemicals was interested in buying. The company has only been able to make marginal improvements in adding new equipment, principally a new boiler. The VE's more expensive recommendations have not been implemented due to lack of capital and the owners' weak credit record. Implementation of less costly recommendations has resulted in a 27% increase in annual output equivalent to about $400,000 of annual product sales. Rahman Chemicals has hired 75 additional personnel.

The VE was able to measure improvements since first visit in 1992 during his second visit in 1994.

Economic Impact: : Rahman Chemicals uses imported cassava root as well as sweet potato and white potato grown in Bangladesh for its raw materials. The production process in capital intensive value added content of $400,000 of final product is less than 30%. Estimated economic impact increased production is $120,000 per year including additional purchases of raw material in the Bangladesh economy.

NOTE: NA = not made available to evaluation team.

RENATA, LTD.

Product	:	Pharmaceuticals
Market	:	Domestic 100% (Europe and USA)
IESC Volunteer	:	Mr. Oscar Hayes
Dates in Country	:	September 20–December 7, 1992
Production	:	multiple products
Employees	:	Total / Sales Force-Only 1992: 507 / 87 1994: 587 / 153 % Change: 16% / 75% increase
Women employees	:	10
Sales	:	1992: $7.7 million in 1993 1994: $8.0 million in 1st 3 Quarters of 1994
Gross Profits	:	NA
IESC Involvement	:	The VE provided assistance to Renata regarding marketing and sales. The owners of Renata purchased the operations of Pfizer Laboratories, who had decided to liquidate their operations in Bangladesh. The quality of product was good, but Renata would no longer be able to use the brand name Pfizer. Renata was growing at low rates (5%/yr.) and was rapidly losing market share to more aggressive firms. Renata decided it needed to launch a 70% expansion in the sales force from 76 field representatives and 11 line managers to 130 field reps and 23 line managers. The increase required an upgrade in training programs and personnel development programs and a better market information system. Pfizer was unwilling to help. The IESC/VE made significant improvement in all three key areas despite the untimely death of Renata's Personnel Manager. As of end of September, Renata's sales in 1994 were 38% ahead of year to date sales for 1992.
Economic Impact	:	The VE's work was directly related to training 66 new field staff and first line managers. The new sales force has been successful in increasing sales by what appears to be $3.0 million per year. Lacking further information on the cost of the sales, however, the estimate of the economic impact related to the VE's input will be limited to the

base salaries of the new field representatives, approximately $530,000 per year (excluding commissions), plus $24,000 per year that Renata now spends regularly on market research surveys in accordance with the VE's recommendation. Total direct economic impact associated with the VE's efforts is $554,000 per year.

NOTE: NA = not made available to evaluation team.

UTTARA BANK , LTD.

Product	:	Banking
Market	:	Domestic 100% (Europe and USA)
IESC Volunteer	:	Mr. Edward Emrich
Dates in Country	:	September 9, 1991–November 11, 1991
Production	:	Before : NA After : NA
Employees	:	Before : NA After : NA % Change : NA
Women Employees	:	NA
Sales	:	Before : NA After : NA
Gross Profits	:	NA
IESC Involvement	:	The VE provided recommendations on the development of a computer department, including identification and budget estimates for computer hardware and software that Uttara bank could use to computerize its banking operations. The VE assisted the bank in obtaining quotes for both hardware and software, including quotes from regional vendors (India). A formal proposal was prepared for presentation to the bank's board of directors. They did not vote to accept the vendors offer. No action was taken.
Economic Impact	:	No measurable economic impact.

NOTE: NA = not made available to evaluation team.

UTTARAN GARMENTS, LTD.

Product	:	Ready made Garments (Shirts, Trousers, Jackets, Shorts)
Market	:	100% Export (Europe, USA)
IESC Volunteer	:	Mr. Jack Leitheiser
Dates in Country	:	September 27–December 5, 1992
Production	:	multiple products
Employees	:	Before : 900 in 1992, Jan. After : NA % Change : NA
Women employees	:	720
Sales	:	Before : $ 4.4 million in 1992 After : $ 4.4 million in 1992
Gross Profits	:	$ 440,000 $ 484,000 10% increase
IESC Involvement	:	Uttaran Garments, Ltd. was started in 1984. By 1992, the company had 3 subsidiary plants. From 1990 to 1992 sales almost doubled from $2.4 to $4.4 million, but the increase in volume was also accompanied by a fall in production rates and quality control. Management was also interested in diversifying into higher fashion items. The EV worked with management to clarify job descriptions and responsibilities of production managers and to change procedures that were reducing output. The EV also demonstrated to management that some of the "higher fashion" items took too much time to produce, cost more, and were not as profitable a use of sewers' skills as items they already knew. Uttaran made no additional investments or additions to employment as a result of the EVs recommendations.
Economic Impact	:	The EV and Uttaran management estimate that implementation of the EV's recommended procedures resulted in a 10% increase in profits from the existing level of operations. The equivalent of about $44,000 in additional value added each year, the same figure could be used as an estimate of the annual impact on national income for Bangladesh.

NOTE: NA = not made available to evaluation team.

Appendix L

BASC MATERIALS

Table L-1. Performance of BASC Under MIDAS

Target Achievement	Completed during 2 years under MIDAS
BASC registration as an independent organization	Legal documents submitted to Ministry of Commerce in July 1993. Ministry of Commerce approval in Sep. 1993 and BASC incorporated in Oct. 1993
BASC Board of Directors appointed	List of 15 Promoters finalized in May 1992. 13 member Board appointed with 4 ex-officio positions (vacant) in Oct. 1993
Personnel Policy Manual and Accounts Manual drafted	Personnel Policy Manual and Accounts Manual approved by Steering Committee in May 1993
Project Director hired by MIDAS	Scheduled completion by end Feb. 1992 but delayed until April 1993
Professionals and support staff hired by MIDAS	4 professionals deputed from MIDAS and 3 hired (2 vacant). Out of 18 support staff, 13 hired
Separate Office with equipment installed	Completed
Program elements pilot-tested	15 training programs, 4 workshops, 1 catalog exhibition pilot-tested
Over 700 managers, supervisors and entrepreneurs participated in training, seminars, workshops and consultancies	330 managers, supervisors, entrepreneurs, cooperators and NGO/GO staff participated in training, seminars, workshops, consultancies and exhibition.

Source: Cooperative Agreement # 3[illegible]0066-A-00-6063-00, Amendment # 5, BASC Quarterly Progress Reports, Annual and Half-Yearly Business Plans.

Exhibit L-1. BASC Case Studies

106

KAY & QUE (BANGLADESH), LTD.

Product	:	Carbon rod for battery UM-1. sales price Tk 0.34/pc (trial production of UM-3)
Market	:	Domestic 100% (first export to West Africa, 15.4 million pcs.)
When Service was provided	:	December 1993
Production	:	Before : 84.7 million pcs in 1993 After : 110 million pcs in 1994
Employees	:	Before : 180 persons in 1993 After : 163 persons in 1994 (average wage Tk 1500-1600/month)
Women Employees	:	None
Sales	:	Before : 56.7 million pcs in 1993 After : 88.6 million pcs in 1994
Gross Profit	:	1993 - Loss, approx. Tk 3.6 million 1994 - Operating at break even
Type of BASC	:	Training in productivity and quality control services 13 staff including managers, chemists, engineers, accountant, administrative officer, and store assistant. Thus the various working departments of the factory included production, maintenance, quality control, and administration.
Impact	:	Factory management and staff have been exposed to modern methods of productivity and quality control. They have been motivated and are able to calculate labor productivity, material productivity, etc. The trainees are more conscious about wastage, looking for more opportunities for cost reduction, and are able to evaluate their own performance. The company may request BASC to organize similar training for their production workers and foremen. The changes in production, employment, sales, and gross profit shown above were the result of 5 years' trial and error to improve product quality. The BASC training had an incremental effect on these changes.

LABONI DAIRY FARM

Product	:	Fresh cow's milk, sale price Tk 18/liter
Market	:	Domestic 100%
When Service was provided	:	August 21, 1994 to August 24, 1994
Production	:	Before : About 40 liters/day from 13 heads After : 90 to 100 liters/day from 22 heads
Employees	:	Before : 5 persons After : 8 persons (average wage Tk 1,500/month)
Women Employees	:	None
Sales	:	Before : 40 liters/day After : 90 to 100 liters/day
Gross Profit	:	Break even operation
Type of BASC	:	Training on Financial Management for the owner services of the company
Impact	:	The BASC training has been useful in exposing the owner to tools of financial management. The dairy farm is now operating at a loss because of competition from imported milk. The changes in production, employment, and sales shown above were the result of an increase in the number of cows. The benefit of the training may be realized in the future.

MODERN ERECTION

Product	:	Boilers, water softeners, heaterless steam iron, vacuuming table, thread sucking machine, industrial fabrication.
When Service was provided	:	August 21 to 24, 1994
Market	:	Domestic 100%
Production	:	Before : Worth Tk 13.5 million in 1993 After : Worth Tk 18.9 million in 1994
Employees	:	Before : 80 persons After : 100 persons
Women Employees	:	None
Sales Value	:	Before : Tk 13.5 million in 1993 After : Tk 18.9 million in 1994
Gross Profit	:	Tk 0.45 million/month
Type of BASC	:	Training in financial management for the owner of the company.
Impact	:	The BASC training has been useful in exposing the owner to tools of financial management. The trainee has plans to introduce store inventory management and budgeting in July 1995. The changes in production, employment, and sales shown above were not related to the BASC training. The benefit of the training may be realized in the future.